

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF INTER-COUNTY ENERGY)	CASE NO.
COOPERATIVE CORPORATION FOR APPROVAL)	2016-00084
OF LONG-TERM REFINANCING WITH COBANK)	

ORDER

On February 24, 2016, Inter-County Energy Cooperative Corporation (“Inter-County”) tendered for filing an application seeking Commission authority to execute a note to CoBank in an amount up to \$17,952,269.¹ The application was found deficient and was rejected by letter dated March 4, 2016. On March 9, 2016, Inter-County submitted additional information which cured the deficiency, and the application was considered filed as of that date. Inter-County responded to one round of requests for information issued by Commission Staff. On March 31, 2016, an informal teleconference was held to clarify certain issues in this case. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

The refinancing of the Rural Utilities Service (“RUS”) secured debt is permitted by RUS under Article II, Section 2.02, of the RUS Mortgage. Inter-County intends to use the proceeds from the proposed CoBank loan to refinance and discharge part of its outstanding \$21,530,832 indebtedness to RUS. The outstanding RUS balance consists of debt with interest rates varying from 0.125 percent to 5.125 percent. Inter-County

¹ Application, paragraph 6.

proposes to refinance six RUS loans in the aggregate amount of \$17,952,269,² with interest rates varying from 3.50 percent to 4.84 percent under the CoBank program.³ CoBank's offer to refinance the RUS notes at a fixed interest rate of 3.80 percent expires May 31, 2016.⁴ Inter-County has requested an Order by April 8, 2016, in order to close the transaction by May 31, 2016.

Inter-County proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 3.80 percent.⁵ One RUS note with a lower interest rate of 3.50 percent, note RET-8-6, has been included for refinancing, as RUS states that qualifying loans to be prepaid must be from the same work plan loan, and all notes included in that work plan loan must be prepaid at the same time to close out the loan.⁶ Inter-County states that note RET-8-6 is required to be included in the work plan loan and could not be excluded.⁷ The new CoBank note will have a principal repayment tenor of 21.7 years, with the principal repayment schedule being 2.32 years less than the consolidated principal payments of the existing RUS notes.⁸ The weighted average

² This amount is the projected principal balance at May 31, 2016 of the RUS loans to be refinanced. The balance of the loans to be refinanced at December 31, 2015, was \$18,125,956. Application, Exhibit 3, Attachment A, and Exhibit 4, Attachment C.

³ Application, Exhibit 3, Attachment A. In paragraph 9 of the application, Inter-County indicated that it expects the actual payoff to be very close to \$17,952,269. In the event the actual payoff of the RUS loans is different, Inter-County proposes to adjust any difference via electronic payment to CoBank, which will allow the note with CoBank to stay at \$17,952,269.

⁴ Application, Exhibit 4, Attachment B.

⁵ *Id.*, paragraph 6.

⁶ Inter-County's response to Commission Staff's Initial Request for Information ("Staff's First Request"), Item 4.b.

⁷ *Id.*

⁸ Application, paragraph 6, and Exhibit 4, Attachment C at 2.

life of the new CoBank note will be 12.31 years, which is less than the weighted average remaining life of the RUS notes selected for refinancing of 14.04 years.⁹ Inter-County provided a cash flow analysis which indicates that through the refinancing it would save \$2,802,067 over the life of the proposed loan.¹⁰ Inter-County determined that the fixed interest rate would result in a positive net present value cash flow of \$1,180,039 at the effective interest rate of 3.80 percent.¹¹

The Commission has reviewed the proposed refinancing and finds Inter-County's proposal to be reasonable, due to the lower effective interest rate and cash flow savings Inter-County would see over the period of the loan. The Commission commends Inter-County for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the RUS payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Inter-County should provide the Commission with the exact amount of the new CoBank loan within ten days of finalizing the transaction. In addition, Inter-County should provide an updated version of Exhibit 4, Attachment C, page 3, of its application reflecting the cash flow analysis of the new CoBank loan.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from CoBank is for lawful objects within the corporate purposes of Inter-County, is necessary and appropriate for and consistent with the proper

⁹ *Id.*, Exhibit 4, Attachment C at 2, and Inter-County's response to Staff's First Request, Item 7.

¹⁰ Application, Exhibit 4, Attachment C at 2.

¹¹ Inter-County's response to Staff's First Request, Item 5.d.

performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Inter-County should execute its note as security for the proposed loan in the manner described in its application.

3. Within ten days of finalizing the refinancing transaction, Inter-County should notify the Commission in writing of the exact amount of the new CoBank loan. Inter-County should include with the notice an updated version of Exhibit 4, Attachment C, page 3, from its application reflecting the savings based on the actual amount of the new CoBank loan.

4. Within ten days of the execution of the new CoBank loan documents, Inter-County should file with the Commission one copy in paper medium and an electronic version of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Inter-County's application.

6. The terms and conditions of the new CoBank loan should be consistent with the CoBank refinancing program as described in Inter-County's application.

IT IS THEREFORE ORDERED that:

1. Inter-County is authorized to borrow from CoBank up to \$17,952,269, but no more than the total amount needed to pay off the RUS notes proposed to be refinanced as identified in the application. The loan maturity date and interest rate shall be in accordance with the CoBank refinancing program as described in Inter-County's application.

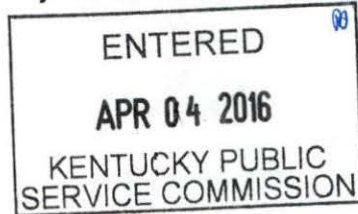
2. Inter-County shall execute the CoBank loan documents as authorized herein.

3. Inter-County shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:


Acting Executive Director

*Cynthia Luttrell
Executive Assistant
Inter-County Energy Cooperative Corporation
1009 Hustonville Road
P. O. Box 87
Danville, KY 40423-0087

*J. Hadden Dean
Sheehan Barnett Dean Pennington Little & Dexter
116 North Third Street
P.O. Box 1517
Danville, KENTUCKY 40423

*James L Jacobus
President/CEO
Inter-County Energy Cooperative Corporation
1009 Hustonville Road
P. O. Box 87
Danville, KY 40423-0087

*Inter-County Energy Cooperative Corporation
1009 Hustonville Road
P. O. Box 87
Danville, KY 40423-0087