

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SALT RIVER)	
ELECTRIC COOPERATIVE CORPORATION FOR)	
AN ORDER PURSUANT TO KRS 278.300 AND)	CASE NO.
807 KAR 5:001, SECTION 11 AND RELATED)	2021-00345
SECTIONS AUTHORIZING THE COOPERATIVE)	
TO OBTAIN A LOAN IN THE AMOUNT OF)	
\$5,000,000 FROM COBANK)	

ORDER

On August 31, 2021, Salt River Electric Cooperative Corporation (Salt River Electric) tendered an application for authority to borrow \$5,000,000 from CoBank in order to refinance its current loan portfolio with CoBank, pursuant to KRS 278.300 and 807 KAR 5:001.¹ By letter dated September 1, 2021, the Commission notified Salt River Electric that its application was rejected as deficient. On September 1, 2021, Salt River Electric tendered an amended application that cured the deficiencies and the application was deemed filed by as of September 1, 2021. Salt River Electric responded to one request for information.² There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

¹ Application, paragraph 8 and 11.

² Salt River Electric's Responses to Commission Staff's First Request for Information (filed Sept. 10, 2021).

LEGAL STANDARD

KRS 278.300 requires Commission approval before a utility may “issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person.”³ The legal standard contained in KRS 278.300(3) establishes the scope of Commission review, stating:

The Commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

PROPOSED REFINANCING

Salt River Electric currently has nine outstanding notes with CoBank. The total of these outstanding notes is \$8,480,967, and have interest rates ranging from 3.4 percent to 7.4 percent.⁴ Salt River Electric seeks to eliminate these varying interest rates and to consolidate the nine notes into one.⁵ To accomplish this, Salt River Electric is requesting to enter into an agreement with CoBank to borrow a total of \$5,000,000.⁶ The proposed CoBank loan, along with a \$4,900,262 cash payment, will be used to pay off the remaining balances of the nine outstanding loans and cover any broken funding surcharges.⁷ The

³ KRS 278.300(1).

⁴ Application, Exhibit 1.

⁵ Application, paragraph 11.

⁶ *Id.*

⁷ *Id.*

proposed CoBank loan is expected to be financed at a fixed interest rate of 1.97 percent, for a term of five years.⁸ Salt River Electric estimates the refinancing will provide a cash flow savings of \$1,751,273 with a net present value of \$4,354,748 in 2038 dollars.⁹ Salt River Electric stated that the final interest rate and the broken fund charge will vary with market conditions.¹⁰

DISCUSSION AND FINDINGS

The Commission finds that that Salt River Electric satisfied the legal standards established in KRS 278.300 to refinance loans previously approved by the Commission,¹¹ for the reasons that follow. First, the lawful object of Salt River Electric's purpose is to provide safe, adequate, and reliable electric service to the public. The refinancing meets the lawful object of the utility's purposes because it is intended to strengthen the financial position of Salt River Electric through substantial cash flow savings by refinancing debt previously approved by the Commission. Second, the refinancing is appropriate for the proper performance by the utility and will not impair its ability to perform that service because the proposed CoBank loan is exclusively for the purposes of refinancing and consolidating existing debt and achieving cash flow savings. No other aspects of Salt River Electric's operations or finances will change, except those related to the refinancing of existing debt as outlined in the application and this Order. Third, the refinancing is a reasonably appropriate option for Salt River Electric to meet its statutory duty to provide

⁸ Application, paragraph 12.

⁹ Application, Exhibit 2.

¹⁰ Application, paragraph 12.

¹¹ Salt River Electric's Response to Commission Staff's First Request for Information, Item 2.

safe, adequate, and reliable service because the current low interest rate environment will allow Salt River Electric to achieve the cash flow savings.

Salt River Electric has requested the Commission to enter an Order as soon as possible to maintain the interest rate and broken fund charge anticipated in its case filing.¹² Therefore, Salt River Electric should provide the Commission with the exact amount of the new CoBank loan, the interest rate, and the broken fund charges within ten days of finalizing the transaction.

After consideration of the evidence of record and being sufficiently advised, the Commission further finds that:

1. The loan from CoBank is for lawful objects within the corporate purposes of Salt River Electric, is necessary and appropriate for, and consistent with, the proper 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. Salt River Electric shall 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, Salt River Electric shall notify the Commission in writing of the exact amount of the new CoBank loan.

4. Within ten days of the execution of the new CoBank loan documents, Salt River Electric should file with the Commission an electronic copy of the loan documents.

¹² Salt River Electric's Response to Commission Staff's First Request for Information, Item 1.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Salt River Electric's application, including paying interest, attorney fees, and closing costs.

6. The terms and conditions of the new CoBank loan should be consistent with the CoBank refinancing program as described in Salt River Electric's application.

IT IS THEREFORE ORDERED that:

1. Salt River Electric is authorized to borrow \$5,000,000 from CoBank to pay off the CoBank 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 Salt River Electric's application.

2. Salt River Electric shall execute the CoBank loan documents as authorized herein.

3. Salt River Electric 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 shall reference this case number and shall be retained in the post-case correspondence file.

5. This case is closed and removed from the Commission's docket.

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

ENTERED
SEP 29 2021 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2021-00345

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