

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR)	
AUTHORIZATION TO BORROW \$9,110,101 FROM)	CASE NO.
COBANK AND EXECUTE NECESSARY NOTES)	2010-00201
AND TO PREPAY RURAL UTILITIES SERVICE)	
5 PERCENT NOTES OF THE SAME AMOUNT)	

O R D E R

On May 17, 2010, Kenergy Corp. ("Kenergy") filed its application for authority to execute notes to CoBank, ACB ("CoBank") in the amount of \$9,110,101.¹ Kenergy intends to use the proceeds from the CoBank loan to refinance and discharge part of its indebtedness to the Rural Utilities Service ("RUS"). Due to the lower interest rate offered by CoBank, Kenergy projects a lifetime cash-flow savings of approximately \$1,654,364 over the life of the loan.² Kenergy has indicated that CoBank has not approved or issued a commitment for the proposed loan.³

As of March 31, 2010, Kenergy's outstanding balance of RUS debt was \$117,794,762.⁴ The outstanding balance of RUS debt is made up of debt with interest

¹ Application at 2.

² Application, Exhibit 2, Attachment B.

³ Application, Exhibit 2, Attachment B, page 1.

⁴ Application, Exhibit 1, Attachment A, pages 1-3. The outstanding balance of the RUS debt reflects the sum of lines 1 through 43 adjusted for the cushion-of-credit balance with RUS shown on line 49.

rates varying from 2.12 percent to 5.12 percent. Kenergy also has outstanding long-term debt with CoBank in the amount of \$19,443,297 at interest rates varying from 4.39 percent to 6.24 percent.⁵ The application does not identify whether the outstanding loans are fixed or variable.

Of its total outstanding RUS debt, Kenergy proposes to refinance \$9,110,101 under the CoBank program.⁶ Kenergy has fixed this amount with CoBank through June 30, 2010.⁷ Kenergy proposes to execute one note in conjunction with the loan from CoBank at a fixed interest rate of 4.41 percent. The new CoBank loan would be amortized for a period of 10 years.⁸ The average remaining life of the RUS notes selected for repayment is 15 years. Kenergy provided a cash-flow analysis based on the \$9,110,101 amount that indicates it could save \$1,654,364 over the life of the loan.⁹ The net present value of the cash-flow savings was provided as part of the analysis prepared by CoBank for Kenergy. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$548,238.¹⁰

⁵ Id. The outstanding balance of CoBank debt reflects the sum of lines 50-66.

⁶ The RUS notes identified for refinancing are as follows:

1. 1B170	4. 1B182	7. 1B340	10. 1B353
2. 1B172	5. 1B190	8. 1B342	
3. 1B180	6. 1B192	9. 1B350	

⁷ Application, Exhibit 2, Attachment B, page 1. Because it has fixed the amount for the CoBank loan, Kenergy expects the actual payoff to be very close to \$9,110,101. In the event the actual payoff of the RUS loans is different, Kenergy proposes to adjust any difference through its line-of-credit agreement with CoBank. See Application at 2.

⁸ Id.

⁹ Application, Exhibit 2, Attachment B, page 3.

¹⁰ Id.

The Commission has reviewed the proposed refinancing and finds Kenergy's proposal reasonable. Kenergy has determined that it can refinance a portion of its RUS five percent fixed rate debt at a lower effective interest rate and experience cash-flow savings over the period of the loan. The Commission commends Kenergy 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, Kenergy should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Kenergy should provide an updated version of Exhibit 2, Attachment B of its application reflecting the cash flow and the net present value analyses of the cash flow for the new CoBank loan.

In recognition of the volatility of interest rates and the potential impact that changes in the interest rates could have on the benefits of the CoBank refinancing program, the Commission has expedited the processing of Kenergy's application. We note that Kenergy assisted this processing by filing its application in compliance with the applicable filing requirements and providing the cash flow and net present value analysis with its application.

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 Kenergy, 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. Kenergy should execute its note as security for the proposed loan in the manner described in its application.

3. Within 10 days of finalizing the refinancing transaction, Kenergy should notify the Commission in writing of the exact amount of the new CoBank loan. Kenergy should include with the notice an updated version of Exhibit 2, Attachment 2 from its application reflecting the savings based on the actual amount of the new CoBank loan.

4. Within 10 days of the execution of the new CoBank loan documents, Kenergy should file with the Commission three copies of the loan documents.

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

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

IT IS THEREFORE ORDERED that:

1. Kenergy is authorized to borrow up to \$9,110,101 from CoBank, but no more than the total amount needed to pay off the RUS notes proposed to be refinanced as shown in footnote 6. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Kenergy's application.

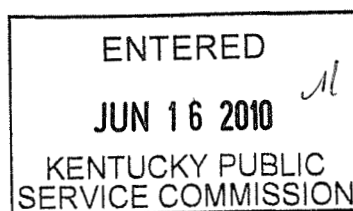
2. Kenergy shall execute the CoBank loan documents as authorized herein.

3. Kenergy 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:



Executive Director

Honorable Frank N King, Jr.
Attorney at Law
Dorsey, King, Gray, Norment & Hopgood
318 Second Street
Henderson, KY 42420

Sanford Novick
President & CEO
Kenergy Corp.
P. O. Box 18
Henderson, KY 42419