

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF KENERGY CORP. FOR)	
AUTHORIZATION TO BORROW \$3,900,000)	
FROM COBANK AND TO PREPAY \$3,900,000)	CASE NO. 2001-191
OF NATIONAL RURAL UTILITIES)	
COOPERATIVE FINANCE CORPORATION)	
NOTES)	

ORDER

On July 12, 2001,¹ Kenergy Corp. (“Kenergy”) filed its application for authority to borrow a sum in total not to exceed \$3,900,000, and to execute notes in conjunction with this borrowing. The loan sought is to be issued by the National Bank for Cooperatives (“CoBank”). Kenergy intends to use the proceeds of these notes to prepay notes of the same amount outstanding to National Rural Utilities Cooperative Finance Corporation (“CFC”). The loan was approved by letter from CoBank on June 8, 2001, and by letter from the Rural Utilities Service (“RUS”) date stamped June 1, 2001.

The proposed issuance of notes from CoBank will be for a 25-year term.² A Restated Mortgage and Security Agreement, executed on September 1, 1999, by and

¹ Kenergy originally submitted its Application to the Commission on June 22, 2001. Deficiencies were cited, and Kenergy cured those deficiencies with the filing made on July 12, 2001.

² See Kenergy’s response to the Commission’s First Data Request dated August 6, 2001, Item 3a. Kenergy stated that the 20-year term stated in the Application should have stated for a “25-year period,” and it applies only to the principal amortization. Kenergy will keep the principal amortization term the same as under the CFC term.

between Kenergy, RUS, CoBank, and CFC will secure the loan. The interest rate may be either fixed or variable, depending on the lowest-cost interest rate options offered at the time the loan is drawn.

As previously stated, Kenergy plans to use the proceeds of the CoBank loan to prepay several loans to the CFC. The loans to be prepaid are listed in the application. Kenergy originally based the \$4,000,000 estimate approved by its board of directors, and used in the amortization schedules in the application, on the principal amounts of the loans outstanding at the time the decision was made to refinance the loans. However, the debt has been paid down since the original estimates were made, resulting in Kenergy's request for approval of financing of approximately \$3,900,000. The exact amount of the loan from CoBank will not be determined until after the Commission's decision is rendered.

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

1. The loan from CoBank in the amount of \$3,900,000 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, and is reasonable, necessary and appropriate for such purposes.
2. Kenergy is capable of executing its notes as security for the loan as stated herein.
3. Kenergy should select the interest rate program which will result in the net lowest cost of money over the term of the financing.

4. Within 10 days of its selection of the interest rate program, Kenergy should notify the Commission in writing of the interest rate program selected and of the reasons for its selection.

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

6. Kenergy should include in its monthly financial report to the Commission the current interest rate on its outstanding variable rate loans.

IT IS THEREFORE ORDERED that:

1. Kenergy is authorized to borrow \$3,900,000 from CoBank for a 25-year period and bearing either a fixed or variable rate, as chosen by Kenergy at the time the first monies are drawn from CoBank, subject to the provisions and terms of the application with respect to renegotiation of the interest.

2. Kenergy is authorized to execute its notes as security for the loan authorized herein.

3. Kenergy shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

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.

Done at Frankfort, Kentucky, this 6th day of September, 2001.

By the Commission

ATTEST:


Executive Director