

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BLUE GRASS ENERGY	)	
COOPERATIVE CORPORATION FOR AN ORDER	)	
AND CERTIFICATE OF PUBLIC CONVENIENCE	)	
AND NECESSITY AUTHORIZING APPLICANT TO	)	CASE NO.
EXECUTE (1) A SECURED PROMISSORY NOTE	)	2003-00271
IN THE SUM OF \$28,968,446.00 AND (2) LOAN	)	
AGREEMENT IN FAVOR OF NATIONAL RURAL	)	
UTILITIES CORPORATION FINANCE	)	
CORPORATION	)	

O R D E R

On July 16, 2003, Blue Grass Energy Cooperative Corporation ( Blue Grass ) filed its application for authority to issue a secured promissory note and loan agreement to the National Rural Utilities Cooperative Finance Corporation ( CFC ) in the amount of \$28,968,446.<sup>1</sup> Blue Grass intends to use the proceeds from the CFC loan to refinance and discharge part of its indebtedness to the Rural Utilities Service ( RUS ), resulting in a lower interest rate and savings of approximately \$4,823,609 over the life of the loan.<sup>2</sup> CFC approved the loan by letter on July 3, 2003, and requires that Blue Grass execute all applicable loan documents within 90 days of the July 3, 2003 date.<sup>3</sup>

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<sup>1</sup> Application Exhibit A.

<sup>2</sup> Application Exhibit E.

<sup>3</sup> Application at 4.

As of July 15, 2003, Blue Grass's outstanding balance of RUS debt was \$36,426,501.<sup>4</sup> The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent fixed rate debt, and variable rate debt. Blue Grass also has long-term debt with the Federal Financing Bank ( FFB ) and CFC. Blue Grass's outstanding balance of FFB debt was \$26,697,890<sup>5</sup> and its outstanding balance of CFC debt was \$10,503,528.<sup>6</sup>

In light of historically low interest rates, CFC has developed a debt refinancing program that is being made available to electric cooperatives. Under this program, eligible RUS 5 percent fixed rate debt is refinanced with CFC long-term debt, which is comprised of a series of notes having various maturity dates. RUS determines a payoff amount that is comprised of principal and interest due on the debt eligible to be refinanced. The cooperative and CFC work together to determine the most beneficial mix of maturity dates in order to maximize the potential savings. The new CFC loan can have either a fixed or variable interest rate initially, and the interest rate is eligible for the conversion options available on any other CFC loan. As part of the analysis performed by CFC, a cash flow analysis and a net present value analysis of the cash flows are prepared.

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<sup>4</sup> Application Exhibit D, Schedule 2, page 3.

<sup>5</sup> Application Exhibit D, Schedule 2, page 4. The outstanding balance is as of July 15, 2003, the same date as the RUS balances. The RUS is the guarantor of borrowings from the FFB.

<sup>6</sup> Application Exhibit D, Schedule 2, page 1. The outstanding balance for the CFC long-term debt is as of June 30, 2003.

Of its total outstanding RUS debt, Blue Grass proposes to refinance \$22,868,606 under the CFC program.<sup>7</sup> Blue Grass plans to select the fixed interest rate option on this loan.<sup>8</sup> Blue Grass provided a cash flow analysis based on the \$22,868,606 amount that indicates it could save \$4,823,609 over the life of the loan.<sup>9</sup> The cash flow analysis also indicates that the new CFC loan will be paid off in 16 years, rather than the 28 years remaining on the various RUS loans. Blue Grass also provided a net present value analysis of the cash flow. This analysis shows that the value of money interest rate can go as high as 8.25 percent and still show a positive net present value cash flow.<sup>10</sup>

In its application, Blue Grass had sought authority to secure a loan from CFC in the amount of \$29,968,446. However, the payoff for the RUS loans eligible for refinancing totals \$22,868,606. Blue Grass explained that one of the RUS loans it had originally included in the refinancing request was later determined by RUS not to be

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<sup>7</sup> Application Exhibit C. The \$22,868,606 is based on a payoff calculation by RUS as of July 31, 2003, and is composed of interest and principal due on the eligible RUS debt.

<sup>8</sup> Approximately 40 percent of Blue Grass's current CFC long-term debt bears a variable interest rate. See Application Exhibit D, Schedule 2.

<sup>9</sup> Application Exhibit E, pages 2 and 3. The cash flow analysis considered the difference in the principal and interest payments for RUS and CFC as well as the impact of CFC discounts available to Blue Grass, additional patronage payments Blue Grass would receive from CFC, and the purchase and amortization of CFC Capital Term Certificates ( CTC ). CFC usually requires borrowers to purchase CTC based on the financial condition of the borrower.

<sup>10</sup> Application Exhibit E, page 3.

eligible for the program. Blue Grass stated that it would only borrow the amount needed to discharge the eligible RUS loans.<sup>11</sup>

The Commission has reviewed the proposed refinancing and finds the proposal reasonable. Blue Grass has determined it can refinance the majority of its RUS 5 percent fixed rate debt at a lower effective interest rate, repay that debt sooner, and experience cash flow savings over the period of the loan. The Commission commends Blue Grass for taking advantage of the financing alternatives available to it, and securing savings for itself and its member-consumers.

The final amounts of the RUS payoff and the new CFC loan will not be known until the refinancing transaction is finalized. Therefore, Blue Grass should provide the Commission with the exact amount of the new CFC loan within 10 days of finalizing the transaction. In addition, Blue Grass should provide an updated version of Application Exhibit E reflecting the detailed and summary comparison of cash flows and the net present value analysis of total loan payment cash flow for the new CFC 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 CFC refinancing program, the Commission has expedited the processing of Blue Grass's application. We note that Blue Grass assisted this processing by filing its application in compliance with the applicable filing requirements, provided the cash flow and net present value analysis with its application, and responded promptly to the Commission Staff's data request.

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<sup>11</sup> Response to the Commission Staff's First Data Request dated July 23, 2003, Item 1(a).

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

1. The loan from CFC is for lawful objects within the corporate purposes of Blue Grass, 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. Blue Grass is capable of executing its notes as security for the loan as stated herein.

3. Within 10 days of the finalization of the refinancing transaction, Blue Grass should notify the Commission in writing of the exact amount of the new CFC loan. Blue Grass should include with the notice an updated version of Exhibit E from its Application reflecting the savings based on the actual amount of the new CFC loan.

4. The proceeds from the proposed loan should be used only for the lawful purposes set out in Blue Grass s application.

5. The terms and conditions of the new CFC loan should be consistent with the CFC refinancing program as described in Blue Grass s application.

IT IS THEREFORE ORDERED that:

1. Blue Grass is authorized to borrow up to \$28,968,446, but no more than the total RUS payoff, from CFC. The loan maturity dates and interest rates shall be in accordance with the CFC refinancing program as described in Blue Grass s application.

2. Blue Grass is authorized to execute the secured promissory note and loan agreement as authorized herein.

3. Blue Grass shall comply with all matters set out in Findings 3 through 5 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 31<sup>st</sup> day of July, 2003.

By the Commission

ATTEST:

*Wm H. I. Bowler*  
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Deputy Executive Director