

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF JACKSON PURCHASE ENERGY)	
CORPORATION FOR AUTHORIZATION TO)	CASE NO.
REFINANCE FROM COBANK AND EXECUTE)	2003-00292
NECESSARY NOTES)	

O R D E R

On August 1, 2003, Jackson Purchase Energy Corporation (Jackson Purchase) filed its application for authority to execute notes to the National Bank for Cooperatives (CoBank) in the amount of \$4,158,599.15.¹ Jackson Purchase intends to use the proceeds from the CoBank loan to refinance and discharge part of its indebtedness to the Rural Utilities Service (RUS), which will result in a lower interest rate and savings of approximately \$188,462 over the life of the loan.² Jackson Purchase has indicated that CoBank s loan committee has given tentative approval of the proposed loan.³

As of June 30, 2003, Jackson Purchase s outstanding balance of RUS debt was \$38,304,152.⁴ The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent fixed rate debt, and variable rate debt. Jackson Purchase also has long-term debt with the National Rural Utilities Cooperative Finance Corporation (CFC)

¹ Application at 2 of 3.

² Application Exhibit 2.

³ Response to the Commission Staff s First Data Request dated August 6, 2003, Item 3(b).

⁴ Application Exhibit 4.

and CoBank. Jackson Purchase's outstanding balance of CFC debt was \$977,702⁵ and its outstanding balance of CoBank debt was \$4,044,095.⁶

In light of historically low interest rates, CoBank 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 CoBank long-term debt. RUS determines a payoff amount that is comprised of principal and interest due on the debt eligible to be refinanced. The cooperative and CoBank work together to determine the most beneficial loan configuration in order to maximize the potential savings. The new CoBank 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 CoBank loan. As part of the analysis performed by CoBank, a cash flow analysis and a net present value analysis of the cash flows are prepared.

Of its total outstanding RUS debt, Jackson Purchase proposes to refinance \$4,158,599.15 under the CoBank program. However, Jackson Purchase stated that it would only borrow the amount needed to discharge eligible RUS loans.⁷ Jackson Purchase states that the new CoBank loan would be for a 10-year period and bear a fixed interest rate equal to or less than 4.80 percent.⁸ Jackson Purchase provided a cash flow analysis based on the \$4,158,599.15 amount that indicates it could save

⁵ Id.

⁶ Id. Jackson Purchase also has a short-term revolving loan with CoBank. The outstanding balance of the short-term debt as of June 30, 2003 was \$800,000.

⁷ Response to the Commission Staff's First Data Request dated August 6, 2003, Item 1(a).

⁸ Application at 2 of 3.

\$188,462 over the life of the loan.⁹ Jackson Purchase also provided a net present value analysis of the cash flow. This analysis shows that at an interest rate of 4.78 percent there would be a positive net present value cash flow of \$125,772.¹⁰

The Commission has reviewed the proposed refinancing and finds the proposal reasonable. Jackson Purchase has determined it can refinance a portion of its RUS 5 percent fixed rate debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends Jackson Purchase 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 CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Jackson Purchase should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Jackson Purchase should provide an updated version of 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 Jackson Purchase's application. We note that Jackson Purchase assisted this processing by filing its application in compliance with the applicable filing requirements, provided the cash flow

⁹ Application Exhibit 2.

¹⁰ Id.

and net present value analysis with its application, and responded promptly to the Commission Staff's data request.

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 Jackson Purchase, 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. Jackson Purchase 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, Jackson Purchase should notify the Commission in writing of the exact amount of the new CoBank loan. Jackson Purchase should include with the notice an updated version of 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, Jackson Purchase should file with the Commission 3 copies of the loan documents.

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

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

IT IS THEREFORE ORDERED that:

1. Jackson Purchase is authorized to borrow up to \$4,158,599.15, but no more than the total RUS payoff, from CoBank. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Jackson Purchase s application.

2. Jackson Purchase is authorized to execute the loan documents as authorized herein.

3. Jackson Purchase 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 12th day of August, 2003.

By the Commission

ATTEST:


Executive Director