

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR)	
AUTHORIZATION TO BORROW \$3,349,661)	
FROM COBANK AND EXECUTE NECESSARY)	CASE NO.
NOTES AND TO PREPAY NATIONAL RURAL)	2004-00196
UTILITIES COOPERATIVE FINANCE)	
CORPORATION NOTES OF THE SAME AMOUNT)	

O R D E R

On May 26, 2004, Kenergy Corp. (“Kenergy”) filed its application for authority to execute notes to the National Bank for Cooperatives (“CoBank”) in the amount of \$3,349,661.¹ Kenergy intends to use the proceeds from the CoBank loan to refinance all of its indebtedness with the National Rural Utilities Cooperative Finance Corporation (“CFC”) in order to obtain a lower interest rate and savings of approximately \$427,813 over the life of the loan.² Kenergy has provided documentation from CoBank and the Rural Utilities Service (“RUS”) approving the proposed loan.³

As of February 29, 2004, Kenergy’s outstanding balance of RUS debt was \$79,680,149.⁴ The outstanding balance of RUS debt is made up of 2 percent fixed rate debt, 5 percent fixed rate debt, and other variable or fixed rate debt. Kenergy also has long-term debt with the Federal Financing Bank (“FFB”), CFC, and CoBank. Kenergy’s

¹ Application at 2.

² Application, Exhibit 2, Attachment E.

³ Application, Exhibit 2, Attachments B and C.

⁴ Application, Exhibit 1, Attachment A, pages 1 through 3 of 3. The outstanding balance of the RUS debt reflects the sum of lines 1 through 47 adjusted for the cushion of credit balance with RUS shown on line 55.

outstanding balance of FFB debt was \$6,000,000;⁵ its outstanding balance of CFC debt was \$3,349,657;⁶ and its outstanding balance of CoBank debt was \$19,310,046.⁷

Kenergy proposes to refinance its entire CFC debt of \$3,349,661 under the CoBank program. Kenergy proposes to execute six notes in conjunction with the borrowing from CoBank and, based on the analysis submitted with its application, would select a variable interest rate for the loans. Kenergy has the option of selecting a fixed or variable interest rate at the time the loan becomes effective, and may thereafter convert from fixed to variable or variable to fixed under the terms of the Master Loan Agreement with CoBank. The amortization schedule for the new CoBank loans would be the same as the current CFC loans.

Kenergy provided a cash flow analysis based on refinancing \$3,349,661 at a variable interest rate of 2.35 percent. That analysis indicates a savings of \$427,813 over the life of the loans.⁸ The net present value of the cash flow savings was provided as part of the analysis prepared by CoBank for Kenergy. The CoBank analysis also showed that the variable interest rate would result in a positive net present value cash flow using discount rates as high as 6 percent. The cash flow analysis included the determination of the net present value of cash flows using discount rates of 2, 4, and 6 percent. The cash flow savings ranged between \$313,492 and \$186,054, respectively.

⁵ Id. The outstanding balance of FFB debt is on line 48.

⁶ Id. The outstanding balance of CFC debt reflects the sum of lines 65 through 70. The difference between the outstanding balance and the amount Kenergy proposes to refinance is due to rounding.

⁷ Id. The outstanding balance of CoBank debt reflects the sum of lines 56 through 64.

⁸ Application, Exhibit 2, Attachment E. This cash flow analysis assumed no discount rate.

The Commission has reviewed the proposed refinancing and finds Kenergy's proposal reasonable. Kenergy has determined that it can refinance all of its CFC debt at a lower effective interest rate and experience cash flow savings over the periods of the loans. The Commission commends Kenergy for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

Since the CFC balances are as of February 29, 2004, it is likely that the final amounts of the CFC 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 each new CoBank loan within 10 days of finalizing the transaction. In addition, Kenergy should provide an updated version of Exhibit 2, Attachment E of its application reflecting the cash flow and the net present value analysis of the cash flow for each new CoBank loan.

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

1. The loans from CoBank are for lawful objects within the corporate purposes of Kenergy, are necessary and appropriate for and consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, are reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Kenergy is capable of executing its notes as security for the loans as stated herein.

3. Within 10 days of finalizing the refinancing transaction, Kenergy should notify the Commission in writing of the exact amount of each new CoBank loan and the

interest rate option selected. Kenergy should include with the notice an updated version of Exhibit 2, Attachment E from its application reflecting the savings based on the actual amount of each new CoBank loan.

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

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

6. The terms and conditions of the new CoBank loans 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 \$3,349,661, but no more than the total CFC payoff, from CoBank. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Kenergy's application.

2. Kenergy is authorized to execute the loan documents as authorized herein.

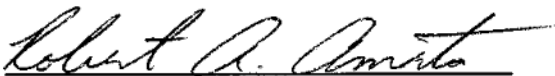
3. Kenergy shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

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 9th day of July, 2004.

By the Commission

ATTEST:

A handwritten signature in cursive script, reading "Robert A. Amrita", written over a horizontal line.

DEPUTY Executive Director

Case No. 2004-00196