COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF SHELBY ENERGY COOPERATIVE, INC. FOR AUTHORIZATION TO EXECUTE MORTGAGE AND SECURITY AGREEMENT	))))	CASE NO. 2026-00238

O R D E R

On September 14, 2026,[1] Shelby Energy Cooperative, Inc. (Shelby Energy) filed an application requesting authorization to execute a Restated Mortgage and Security Agreement dated as of August 3, 2026 (Restated Mortgage), and a Uniform Commercial Code Financing Statement (UCC Financing Statement) in favor of the United States of America, acting through the Rural Utilities Service (RUS), and National Rural Utilities Cooperative Finance Corporation (CFC).

Commission Staff held an informal conference on October 1, 2026, to discuss the application.[2] Commission Staff issued its first request for information on October 6, 2026, with Shelby Energy filing its responses and a corrected mortgage exhibit on October 13, 2026.[3] This matter is now ripe for a decision.

[1] Application (filed Sept. 14, 2026). By letter dated September 16, 2026, the Commission accepted the application for filing as of September 14, 2026.

[2] Informal Conference Memorandum (filed Oct. 12, 2026).

[3] Shelby Energy's Response to Commission Staff's First Request for Information (Shelby Energy's Response to Staff's First Request) (filed Oct. 13, 2026).

BACKGROUND

Shelby Energy stated it is borrowing up to $52 million from the United States Treasury pursuant to a Loan Contract with RUS (Loan Contract), and will execute a future advance promissory note payable to the United States Treasury (Treasury Direct Note).[4] The Treasury Direct Note provided for interest on each advance at the applicable Treasury rate, a first principal payment date of August 3, 2028, and a final maturity date of August 3, 2061.[5] Shelby Energy stated that the execution of the Restated Mortgage and the UCC Financing Statement is a required condition of the Loan Contract.[6]

The loan proceeds would finance projects in Shelby Energy's 2026–2029 Construction Work Plan (CWP), which had an estimated total cost of $52,071,079.[7] Shelby Energy confirmed that it would use internally generated funds for the portion of the CWP costs not covered by the proposed financing.[8] Based on the estimated CWP cost and the maximum loan amount, that difference was $71,079.

Shelby Energy confirmed that it would draw the loan funds in separate advances rather than borrow the entire $52 million at one time.[9] Shelby Energy acknowledged that each advance would generally reduce its debt service coverage ratio and Times Interest

[4] Application at unnumbered PDF page 2, paragraph 7, and Exhibits 2–3.

[5] Application, Exhibit 2, Treasury Direct Note, paragraphs 1–7.

[6] Application at unnumbered PDF page 3, paragraphs 8 and 9.

[7] Application at unnumbered PDF page 3, paragraph 10, and Exhibit 7, PSC Staff Opinion 2026-0001 (issued Apr. 8, 2026) at 2.

[8] Shelby Energy's Response to Staff's First Request, Item 3.

[9] Shelby Energy's Response to Staff's First Request, Item 2(a).

Earned Ratio (TIER), with the effect depending on the timing and amount of the advance and the applicable interest rate.[10]

Shelby Energy corrected its description of the existing mortgage and supplied a replacement for the document originally filed as Exhibit 5 to the application.[11] Shelby Energy clarified that the "Original Mortgage" was the Restated Mortgage and Security Agreement dated December 1, 2022, with a maximum indebtedness of $200 million, rather than the November 1, 2005 instrument and $100 million amount identified in the application.[12] The proposed Restated Mortgage likewise identified the December 1, 2022 instrument as the Original Mortgage and specified a $200 million Maximum Debt Limit.[13]

Shelby Energy explained that CFC would act as a mortgagee and secured party to maintain its security interest in existing obligations, and that no new CFC funds would be borrowed for the 2026–2029 CWP.[14] The Restated Mortgage would continue a security interest in Shelby Energy's property, subject to the instrument's Excepted Property provisions.[15] Shelby Energy stated that it believed CFC would have independent enforcement rights under the mortgage, but confirmed that CFC had no role under the Loan Contract.[16]

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[10] Shelby Energy's Response to Staff's First Request, Item 2(b).

[11] Shelby Energy's Response to Staff's First Request, Item 4 at 1 and accompanying Restated Mortgage and Security Agreement dated as of December 1, 2022.

[12] Shelby Energy's Response to Staff's First Request, Item 4 at 1–2.

[13] Application, Exhibit 6, Restated Mortgage at 1 and Schedule A, Part One, Items 1 and 4.

[14] Shelby Energy's Response to Staff's First Request, Items 6(a)–(b); Application, Exhibit 1, Shelby Energy Loan Portfolio as of June 30, 2026, CFC Loans.

[15] Shelby Energy's Response to Staff's First Request, Item 6(a); Application, Exhibit 6, Restated Mortgage at 1–4.

[16] Shelby Energy's Response to Staff's First Request, Items 6(b)–(c).

In explaining why Schedule 1 to the Loan Contract identified governmental approvals as "Not Applicable," Shelby Energy distinguished the federally supervised loan from the mortgage securing CFC's existing obligations.[17] Shelby Energy corrected the regulatory citation in paragraph 14 of its application to 807 KAR 5:001, Section 18(2)(c), and stated that the CWP had been submitted with its February 3, 2026 request for a Staff advisory opinion.[18]

LEGAL STANDARD

When an applicant seeks approval for the issuance of securities or evidences of indebtedness, KRS 278.300(3) requires:

> [T]hat the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

In addition, under KRS 278.300(4), "[t]he commission may grant or deny the application in whole or in part, or may grant it with such modifications and upon such terms and conditions as the commission deems necessary or appropriate." However, KRS 278.300(10) states,

> This section does not apply in any instance where the issuance of securities or evidences of indebtedness is subject to the supervision or control of the federal government or any agency thereof, but the commission may appear as a party to any proceeding filed or pending before any federal agency if the issuance of the securities or evidences of indebtedness will materially affect the utility over which the commission has jurisdiction.

[17] Shelby Energy's Response to Staff's First Request, Item 5 at 1–2; Application, Exhibit 3, Loan Contract, Schedule 1, Items 2–3.

[18] Shelby Energy's Response to Staff's First Request, Item 1.

DISCUSSION AND FINDINGS

The Commission finds that the Treasury Direct Note and Loan Contract are subject to the supervision and control of the federal government through RUS and are exempt from Commission approval under KRS 278.300(10).[19]

However, the Treasury Direct Note and Loan Contract exemption does not resolve the requested authorization for the Restated Mortgage and UCC Financing Statement in favor of CFC, which is not a federal agency and retains a separate secured interest.[20] The Commission finds that the Restated Mortgage and UCC Financing Statement serve a lawful corporate purpose by providing the security necessary for the federal financing of Shelby Energy's electric distribution projects and continuing security for its existing CFC obligations.[21] The proposed Restated Mortgage restates and consolidates the Original Mortgage while preserving the priority of its lien.[22]

In assessing the effect on service, the Commission has considered Shelby Energy's financial exhibit, the proposed staged advances, the use of internally generated funds for the remaining CWP costs, and the acknowledged effect of future advances on coverage ratios.[23] Execution of the security instruments maintains CFC's security for

[19] Application at unnumbered PDF page 2, paragraph 7; at unnumbered PDF page 3, paragraph 12; and Exhibits 2–3; Shelby Energy's Response to Staff's First Request, Item 5.

[20] Application at unnumbered PDF page 4, paragraph 13, and Exhibit 4, UCC Financing Statement and Addendum; Shelby Energy's Response to Staff's First Request, Items 6(a)–(c).

[21] Application at unnumbered PDF pages 3–4, paragraphs 8–10 and 13(a)–(c); Shelby Energy's Response to Staff's First Request, Items 3 and 6(a)–(c).

[22] Application, Exhibit 6, Restated Mortgage at 1, recitals; Shelby Energy's Response to Staff's First Request, Item 4.

[23] Application, Exhibit 1; Shelby Energy's Response to Staff's First Request, Items 2(a)–(b), 3, and 6(b).

existing obligations without creating a new CFC loan.[24] On this record, the Commission finds that the requested security instruments are necessary and appropriate for, and consistent with, Shelby Energy's service to the public, will not impair its ability to perform that service, and are reasonably necessary and appropriate for the stated purposes. The application, as supplemented, should therefore be approved.

The $200 million Maximum Debt Limit stated in the proposed Restated Mortgage is distinct from the $52 million federal loan commitment.[25] Authorization to execute the security instruments does not authorize additional indebtedness otherwise subject to KRS 278.300. The Commission's approval is limited to the mortgage and security transaction presented in this record.

The Staff advisory opinion included with the application addressed whether the individual CWP projects required a Certificate of Public Convenience and Necessity and expressly stated that it was advisory and did not determine the reasonableness or need for the projects.[26] This Order does not adjudicate the construction requirements or rate recovery of those projects.

IT IS THEREFORE ORDERED that:

1. Shelby Energy is authorized to execute the Restated Mortgage and Security Agreement dated as of August 3, 2026, submitted as Exhibit 6 to the application, and the UCC Financing Statement submitted as Exhibit 4, in favor of RUS and CFC, in

[24] Shelby Energy's Response to Staff's First Request, Items 6(a)–(b).

[25] Application, Exhibit 6, Schedule A, Part One, Item 1; Application, Exhibit 3, Loan Contract, Schedule 1, Item 11.

[26] Application, Exhibit 7, PSC Staff Opinion 2026-0001 at 1 and 3.

accordance with the terms described in the application as supplemented by the Shelby Energy's Response to Staff's First Request.

2. The security instruments authorized herein shall be used only for the purposes described in the application, as supplemented, of securing the federal financing for the 2026–2029 CWP and the existing obligations identified in the Restated Mortgage.

3. Within ten days after execution of each authorized document, Shelby Energy shall file with the Commission an electronic version of the fully executed document.

4. Any documents filed in the future pursuant to ordering paragraph 3 shall reference this case number and be retained in Shelby Energy's post-case correspondence file.

5. 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.

6. This case is closed and removed from the Commission's docket.

Entered on this 9th day of November, 2026.

PUBLIC SERVICE COMMISSION

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