

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BLUE GRASS ENERGY)	
COOPERATIVE CORPORATION FOR AN ORDER)	
PURSUANT TO KRS 278.300 AND 807 KAR 5:001,)	
SECTION 11 AND RELATED SECTIONS)	CASE NO.
AUTHORIZING THE COOPERATIVE TO OBTAIN)	2013-00071
A LOAN IN THE AMOUNT OF \$1,200,000 FROM)	
THE NATIONAL RURAL UTILITIES COOPERATIVE)	
FINANCE CORPORATION)	

ORDER

On February 22, 2013, Blue Grass Energy Cooperative Corporation (“Blue Grass Energy”) filed its application seeking authority to execute notes to National Rural Utilities Finance Corporation (“CFC”) in the amount of \$1,200,000.¹ By letter dated February 28, 2013, the Commission notified Blue Grass Energy that its financing application was rejected as deficient for failing to include the information necessary to satisfy the filing requirements of 807 KAR 5:001, Sections 12(4), 12(6), 12(9), 17(1)(b), 17(1)(e), and 17(2)(a). On March 6, 2013, Blue Grass Energy filed the information necessary to cure the deficiencies and the application was deemed filed as of that date.

Blue Grass Energy intends to use the proceeds from the CFC loan to finance certain projects being implemented under an Energy Conservation Management Services (“ECMS”) contract with the federal government at the Blue Grass Army Depot located in Richmond, Kentucky. A copy of this contract was filed as Exhibit 2 in Case

¹ Application at ¶ 11.

No. 2006-00167.² Pursuant to the ECMS contract, Blue Grass Energy performs work or contracts for work performed at the Blue Grass Army Depot that result in energy savings to the U.S. government through the updating of electrical equipment, lighting systems, heating and cooling systems and similar energy-saving projects. The projects that are the subject of the proposed CFC loan³ are estimated to produce annual energy savings of 324,508 kWh and annual cost savings of \$18,308.⁴ Funds for this contract will be paid by Blue Grass Energy from a CFC short-term line of credit. Blue Grass Energy will use the proceeds from the proposed CFC loan to reimburse the line of credit.

Blue Grass Energy will execute a 10-year promissory note for repayment of the proposed CFC loan. Pursuant to the promissory note, Blue Grass Energy will utilize the variable interest rate offered by CFC to make the note repayment consistent with the terms of the ECMS contract, which also provides for a variable interest rate on the amounts the U.S. government is repaying Blue Grass Energy over the 10 year period of the contract.⁵ Under the terms of the contract, Blue Grass Energy will receive a .25 percent adder on the interest rate the U.S. government pays it over the CFC interest rate for administering the loan.⁶ In addition, Blue Grass Energy stated that it will also receive a one-time 9 percent management fee over the cost of the projects for

² Case No. 2006-00167, Application of the Blue Grass Energy Cooperative Corporation for an Order Pursuant to 278.300 and 807 KAR 5:001, Section 11, and Related Sections Authorizing the Cooperative to Obtain a Loan in the Amount of \$525,000 from the National Rural Utilities Cooperative Finance Corporation, (Ky. PSC, June 16, 2006).

³ Application, Exhibit 3.

⁴ See Item 3 of Blue Grass Energy's Response to the Informal Conference questions, March 18, 2013.

⁵ Application at ¶ 20.

⁶ Internal Conference Memorandum ("IC Memo"), March 22, 2013.

managing the projects.⁷ Blue Grass Energy will utilize a variable interest rate because this rate does not include a prepayment penalty by the CFC. The variable rate as of March 6, 2013 is 2.9 percent.⁸ The loan will be secured by a mortgage and security instrument.⁹

Since the provision of services under the ECMS contract is an extension of its core business, Blue Grass Energy has established an accounting system to separately account for the income and expenses associated with the projects. Blue Grass Energy is of the opinion that this project is consistent with its Articles of Incorporation and the Amendments thereto relating to the purposes for which Blue Grass Energy was organized pursuant to the Rural Electrification Act. Both Blue Grass Energy and its accountants are of the opinion that the income generated by Blue Grass Energy in this endeavor will not jeopardize Blue Grass Energy's tax-exempt status.¹⁰ Blue Grass Energy states that the funding to be obtained is solely from CFC and not from the Rural Utilities Service ("RUS") or any other source, since RUS does not provide this type of financing for U.S. government projects.¹¹ Blue Grass Energy will not be required to obtain loan capital term certificates in conjunction with this financing, as this provision was eliminated effective in 2009.¹²

⁷ Id.

⁸ Exhibit 1 of the response to the Commission's deficiency letter, March 6, 2013.

⁹ Application at ¶ 11.

¹⁰ Application at ¶ 22.

¹¹ Application at ¶ 21.

¹² See Item 2 of Blue Grass Energy's Response to the Informal Conference questions, March 18, 2013.

As of November 30, 2012, Blue Grass Energy's outstanding balance of CFC debt was \$12,910,587,¹³ which is made up of debt with interest rates varying from 2.95 percent to 7.1 percent. Blue Grass Energy also has outstanding long-term debt with RUS in the amount of \$76,026,476 at interest rates varying from 3.23 percent to 6.0 percent.¹⁴ Finally, Blue Grass Energy has outstanding debt with Federal Financing Bank in the amount of \$29,777,858 at interest rates varying from .013 to 4.906 percent.¹⁵

The ownership of the projects completed by Blue Grass Energy will remain with the U.S. government.¹⁶

Blue Grass Energy has requested expedited Commission approval of its financing application so that cost- and energy-saving projects at the Blue Grass Army Depot can be implemented as soon as possible.¹⁷

Having reviewed the application, the Commission finds that Blue Grass Energy's proposed financing is reasonable and for a proper purpose. Based on the request of Blue Grass Energy and for good cause shown, the Commission has expedited the processing of Blue Grass Energy's application.

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

¹³ Exhibit 5 of the response to the Commission's deficiency letter, March 6, 2013.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ March 21, 2013 Informal Conference Memorandum.

¹⁷ Application at ¶ 24 and March 21, 2013 Informal Conference Memorandum.

1. The loan from CFC is for lawful objects within the corporate purposes of Blue Grass Energy, 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 Energy should execute its note as security for the proposed loan in the manner described in its application.

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

4. The terms and conditions of the new CFC loan should be consistent with the CFC financing program as described in Blue Grass Energy's application.

5. Blue Grass Energy should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction.

IT IS THEREFORE ORDERED that:

1. The loan from CFC as described in Blue Grass Energy's application is approved.

2. Blue Grass Energy shall execute its note as security for the proposed loan in the manner described in its application.

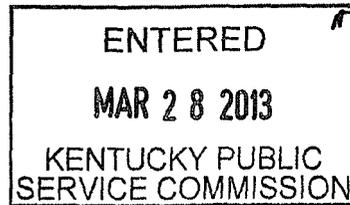
3. The proceeds from the proposed loan shall be used only for the lawful purposes set out in Blue Grass Energy's application.

4. The terms and conditions of the new CFC loan shall be consistent with the CFC financing program as described in Blue Grass Energy's application.

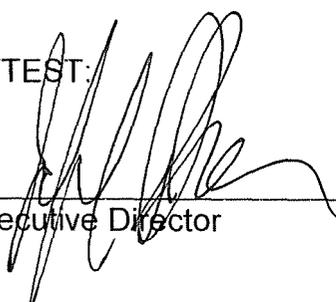
5. Blue Grass Energy shall provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction.

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.

By the Commission



ATTEST:



Executive Director

J. Donald Smothers
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