

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF INTER-COUNTY ENERGY)
COOPERATIVE CORPORATION FOR APPROVAL) CASE NO. 2016-00084
OF LONG-TERM FINANCING WITH COBANK)

RESPONSES TO COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION
TO INTER-COUNTY ENERGY COOPERATIVE CORPORATION

March 28, 2016

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In the Matter of:


APPLICATION OF INTER-COUNTY ENERGY)
COOPERATIVE CORPORATION FOR APPROVAL) CASE NO. 2016-00084
OF LONG-TERM FINANCING WITH COBANK)

INTER-COUNTY ENERGY COOPERATIVE CORPORATION
RESPONSE TO COMMISSION STAFF'S INITIAL REQUEST FOR INFORMATION

CERTIFICATE


STATE OF KENTUCKY)
COUNTY OF BOYLE)

Sheree Gilliam, Sr. Vice President-Finance and Administration, being duly sworn, states that she has supervised the preparation of Inter-County Energy Cooperative Corporation's responses to the Commission Staff's Initial Request for Information in the abovementioned Case No. 2016-00084 dated March 18, 2016, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.



Sheree Gilliam
Sr. Vice President – Finance and Administration

Subscribed and sworn before me on this 28 day of March, 2016.



Notary Public - ID No. 494777
My Commission Expires: August 24, 2017

Inter-County Energy Cooperative Corporation (“Inter-County”) hereby submits responses to the Commission’s Initial Request for Information in Case No. 2016-00084 dated March 18, 2016.

Request:

1. Refer to the Application, paragraph 6. Provide the terms of the loan proposed to Inter-County by National Rural Utilities Cooperative Finance Corporation and the potential refinance savings, if any.

Response:



• **CFC refinancing proposal #1**

- Match of RUS principal payments. CFC interest rates are fixed for life of the debt.
- Loan Amount: \$18.1 million
- CFC effective interest rate of 4.02% and the CFC interest rates are fixed for the life of the debt
- Summary of refinancing:

| | |
|-----------------------------|--------------------|
| • Interest savings | \$ 416,847 |
| • CFC Pat Cap savings | <u>\$1,055,860</u> |
| • Total Benefit of RUS Refi | \$1,472,707 |

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Request:

2. Refer to the Application, paragraph 8. Confirm that the net present value (“NPV”) of \$1,011,347 is calculated using a 4.48 percent discount rate of the blended interest rate of the Rural Utilities Service (“RUS”) notes.

Response:

2. Yes, the net present value (“NPV”) of \$1,011,347 is calculated using a 4.48 percent discount rate of the blended interest rate of the Rural Utilities Service (“RUS”) notes.

Request:

3. Refer to the Application, paragraph 9. Explain what is meant by the statement, “Inter-County proposes to adjust any difference via electronic payment to CoBank, which will allow the note with CoBank to stay at \$17,952,269.”

Response:

3. Inter-County Energy is securing a loan from CoBank in the amount of \$17,952,269 to refinance RUS BA44 Work Plan loans. Most likely there will be a small difference between the amount of the CoBank loan and the RUS prepayment amount at closing. As of this filing, RUS has not confirmed a closing date with Inter-County Energy. Any difference between the CoBank loan amount and the actual RUS prepayment amount at closing will be sent to CoBank from Inter-County Energy via electronic payment in order for CoBank to prepay the entire amount of the RUS loans.

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Request:

4. Refer to the Application, Exhibit 3, Attachment A, Mortgages of Inter-County Energy Cooperative.

a. Explain why there are “Advance Payments Unapplied” of \$18,128 for the RUS loans.

Response:

a. Advance Payments Unapplied represents the balance of Inter-County Energy’s deposit in the RUS Cushion of Credit. This deposit is an investment vehicle offered by RUS to be used for debt retirement.

b. Explain why RUS note RET-8-6 has been included for refinancing, given that its current interest rate of 3.50 percent is lower than the refinancing rate of 3.80 percent.

Response:

b. RUS note RET-8-6 has been included for refinancing as RUS states that qualifying loans to be prepaid must be from the same work plan loan and all notes included in that work plan loan must be prepaid at the same time to close out the loan. The notes included in Inter-County Energy’s refinance proposal are all included in Work Plan Loan BA44. RUS note RET-8-6 could not be excluded.

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c. Explain why RUS note RET-7-1 has not been included in the notes to be refinanced, given that its current interest rate of 5.125 percent is the highest interest rate of the individual RUS notes.

Response:

c. RUS note RET-7-1 has not been included in the notes to be refinanced for the same reason discussed in 4(b.) RUS note RET-7-1 is from Work Plan Loan AX61 and therefore could not be included.

Request:

5. Refer to the Application, Exhibit 4, Attachment C, Existing RUS Loan Profile & Summary Analysis.

a. Provide the calculations for the Weighted Average Life (“WAL”) in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Response:

a. The Weighted Average Life (“WAL”) calculation is provided in Exhibit A (Tab 1) in Excel format with formulas intact and unprotected and all rows and columns are fully accessible.

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b. Provide the calculation of the NPV in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Response:

b. The NPV calculation is provided in Exhibit A (Tab 2) in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

c. Explain why the RUS blended interest rate of 4.48 percent was used to calculate the NPV of the interest savings.

Response:

c. The RUS blended interest rate of 4.48 percent was used to calculate the net present value ("NPV") of the interest savings because the RUS blended interest rate produces a more conservative NPV of the interest savings. The NPV interest savings using the RUS blended interest rate of 4.48 percent is \$1,011,347 and the NPV interest savings using the CoBank interest rate of 3.80 percent is \$1,180,039.

d. Provide the NPV calculation using the CoBank interest rate of 3.80 percent in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Response:

d. The NPV calculation using the CoBank interest rate of 3.80 percent is provided in Exhibit A (Tab 3) in Excel spreadsheet format with formulas intact and unprotected and all row and columns fully accessible. The NPV calculation using the interest rate of 3.80 percent is \$ 1,180,039.

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Request:

6. Refer to the Application, Exhibit 4, Attachment C, Side by Side Comparison of RUS Notes and CoBank Loan.

a. Confirm that the annual principal and interest payments for the combined RUS Loans is the sum based on each loan's term and not based on the average interest rate between the loans. If such is not confirmed, update this exhibit with the RUS loan payments and interest payments per loan.

Response:

a. Yes, the annual principal and interest payments for the combined RUS loans is the sum based on each loan's term and not based on the average interest rate between the loans.

b. Provide this exhibit in Excel spreadsheet format, with all formulas intact and unprotected and with all columns and rows accessible. If it is necessary to update this exhibit in response to questions contained in this information request, provide the updated version in both paper copy and electronically.

Response:

b. The side-by-side comparison of RUS notes and CoBank Loans is provided in Exhibit A (Tab 4) with all formulas intact and unprotected and all columns and rows accessible.

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Request:

7. Provide the WAL of the CoBank loan in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Response:

7. The WAL of the CoBank loan is provided in Exhibit A (Tab 1) In Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Request:

8. Provide an estimate of any fees or expenses that Inter-County expects it will incur to close the loan with CoBank, as well as an estimate of their impact on the NPV of the proposed financing to the extent they are not already reflected.

Response:

8. Inter-County Energy expects to incur legal counsel fees associated with Commission approval filings, review of loan documents and preparations of legal opinions. Counsel estimates those fees to be approximately \$5,000. The NPV impact will be \$5,000 as this is an upfront expense and no discount applies.

9. Inter-County has not requested Commission approval by any certain date in order to close by May 31, 2016. Provide the date that Inter-County would need approval in order to close by May 31, 2016.

Response:

9. Inter-County Energy request Commission approval by April 4, 2016 in order to close by May 31, 2016.

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