

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

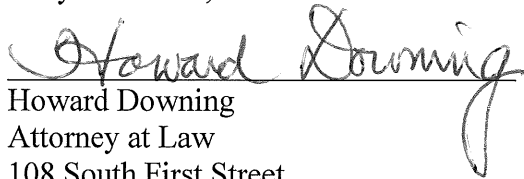
In the Matter of:

ELECTRONIC APPLICATION OF BLUE GRASS }
ENERGY COOPERATIVE CORPORATION FOR }
AUTHORIZATION TO BORROW \$60,269,116 }
FROM THE NATIONAL RURAL UTILITIES } CASE NO. 2016-00291
COOPERATIVE FINANCE CORPORATION, }
AND EXECUTE THE NECESSARY NOTE, AND }
PREPAY RURAL UTILITIES SERVICE NOTES }
IN THE AMOUNT OF \$70,269,116 }

**RESPONSES TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
AND PRODUCTION OF DOCUMENTS TO BLUE GRASS ENERGY COOPERATIVE
CORPORATION**

Comes Blue Grass Energy Cooperative Corporation ("Blue Grass"), by counsel, and respectfully submits the following Responses to the Commission Staff's Initial Request for Information and Production of Documents to Blue Grass Energy Cooperative Corporation.

Respectfully submitted,



Howard Downing
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Attorney for Blue Grass Energy Cooperative Corporation

I, the undersigned Charles G. Williamson III, being the VP, Finance/CFO at Blue Grass, certify that the Responses contained herein are true and accurate to the best of my knowledge, information and belief formed after a reasonable inquiry.



Charles G. Williamson III, VP, Finance/CFO

Date: 8/24/2016

1. Refer to the Application, page 3, numbered paragraph 8. Explain why Blue Grass is liquidating temporary investments for the \$10,000,000 principal payment.

Response: At June 30, 2016 Blue Grass had \$21.5 million in temporary investments and another \$2.0 million is cash. After analyzing cash flow, Blue Grass management and directors determined that \$10.0 million of the amount could be applied to reduce the loan amount. Those temporary investments yield far less than the interest charged on the notes being paid down.

Responsible Witness:

Charles G. Williamson III

2. Refer to the Application, Exhibit 2, page 4. Explain why the advance date is 10/31/2016 and not 9/30/2016, the proposed closing date.

Response: CFC gave Blue Grass a 120 day forward rate lock. 120 days from the date of the lock is approximately October 31, 2016. The 120 day lock was provided as a level of comfort if for some reason the loan was not able to be closed by the proposed September 30, 2016 date. A fee was incorporated into the rate, but the fee would have been the same if Blue Grass had only locked in the rate until September 30, 2016.

Responsible Witness:

Charles G. Williamson III

3. Refer to the Application, Exhibits 3 and 4.
 - a. Provide the “as of” date of the loan balances in Exhibit 4.
 - b. In Exhibit 4, refer to the Maturity Date of Loan Number RET-19-1 of 6/30/2030.
Explain why this Maturity Date is different from the Maturity Date for Loan Number RET-19-1 on page 3 of Exhibit 3.
 - c. Explain why RUS note RET-21-2 has been included for refinancing, given that its current interest rate of 2.38 percent is lower than the refinancing rate of 2.95 percent.

Response 3a: The as of date of the loan balances in Exhibit 4 is June 30, 2016.

Response 3b: The correct Maturity Date of Loan Number RET-19-1 is November 30, 2041. A corrected Exhibit 4 (Exhibit 4- Amended) is attached.

Response 3c: RUS does not allow selected notes to be refinanced. The entire RUS portfolio must be refinanced in order to refinance any of them.

Responsible Witness:

Charles G. Williamson III

4. Refer to the Application, Exhibit 6, page 2.
 - a. Confirm the interest rate for which the Net Present Value (“NPV”) is calculated.
 - b. Provide the NPV calculation with the legal fees.
 - c. Provide the calculation of NPV in Excel spreadsheet format with formulas intact and unprotected and all rows and columns fully accessible.

Response 4a: A discount rate of 4.13% was used for the NPV calculations. This rate is the weighted average rate of the RUS notes being refinanced.

Response 4b: The NPV calculations with legal fees are attached as Exhibit 1. Upon providing this response, Blue Grass discovered that the original calculations did not factor into effect the initial \$10,000,000 payment made from temporary investments. Exhibit 1 has been modified to reflect a one-time payment of \$10,000,000, listed as a separate column in the “CFC” section. The corrected Total Cash Flow Difference is \$19,099,012 and the NPV is \$5,093,381. Additionally, upon further investigation, Blue Grass notes that the estimated legal fees of \$10,000 are likely to be on the high side, however, that number was used for this analysis. Any reduction in the ultimate legal fees from the estimate will result in increased NPV.

Response 4c: The NPV calculations in Excel format is attached to this response. There are tabs for NPV both with and without the estimated legal fees of \$10,000.

Responsible Witness:

Charles G. Williamson III



Created & Owned by America's Electric Cooperative Network

Blue Grass Energy Co-op

RUS Payoff

RUS Refinance - Single Note - 17 Year Term

Count	Loan Number	Payments Per Year	Interest Rate	Amort Type	Loan Balance	Payment	Maturity Date	Years to Maturity	Treasury Rate	Payoff Amount	Amount of Discount	Percentage Discount
1	RET-19-1	12	5.75%	LD	\$ 708,392.57	\$ 6,215.00	11/30/2041	25.06	0.00%	\$ 708,392.57	\$ 0.00	0.000%
2	RET-19-2	12	6.00%	LD	\$ 239,882.43	\$ 2,129.37	7/31/2030	13.75	0.00%	\$ 239,882.43	\$ 0.00	0.000%
3	RET-19-3	12	5.50%	LD	\$ 638,276.43	\$ 5,480.00	7/31/2030	13.85	0.00%	\$ 638,276.43	\$ (0.00)	0.000%
4	RET-19-4	12	5.13%	LD	\$ 290,063.31	\$ 2,435.88	7/31/2030	13.85	0.00%	\$ 290,063.31	\$ (0.00)	0.000%
5	RET-18-1	12	5.75%	LD	\$ 462,741.91	\$ 4,180.99	11/30/2029	13.05	0.00%	\$ 462,741.91	\$ (0.00)	0.000%
6	RET-18-3	12	5.75%	LD	\$ 310.36	\$ 2.83	8/31/2029	12.95	0.00%	\$ 310.36	\$ 0.00	0.001%
7	RET-18-2	12	5.75%	LD	\$ 463,052.42	\$ 4,183.83	11/30/2029	13.05	0.00%	\$ 463,052.42	\$ 0.00	0.000%
8	RET-21-1	12	5.00%	LD	\$ 3,495,279.87	\$ 25,850.00	4/30/2033	16.55	0.00%	\$ 3,495,279.87	\$ (0.00)	0.000%
9	RET-21-2	12	2.38%	LD	\$ 1,237,745.61	\$ 7,472.74	5/31/2033	16.65	0.00%	\$ 1,237,745.61	\$ (0.00)	0.000%
10	RET-21-3	12	3.63%	LD	\$ 1,769,936.34	\$ 11,768.52	5/31/2033	16.65	0.00%	\$ 1,769,936.34	\$ 0.00	0.000%
11	RET-22-1	12	3.75%	LD	\$ 6,458,065.61	\$ 34,984.20	8/31/2039	22.85	0.00%	\$ 6,458,065.61	\$ 0.00	0.000%
12	RET-22-2	12	4.25%	LD	\$ 4,128,366.34	\$ 23,550.00	7/31/2039	22.75	0.00%	\$ 4,128,366.34	\$ (0.00)	0.000%
13	RET-22-3	12	4.25%	LD	\$ 4,954,039.52	\$ 28,260.00	7/31/2039	22.75	0.00%	\$ 4,954,039.52	\$ 0.00	0.000%
14	RET-22-4	12	4.50%	LD	\$ 4,160,830.25	\$ 24,300.00	7/31/2039	22.75	0.00%	\$ 4,160,830.25	\$ (0.00)	0.000%
15	RET-22-5	12	4.13%	LD	\$ 4,371,468.73	\$ 24,609.46	7/31/2039	22.85	0.00%	\$ 4,371,468.73	\$ (0.00)	0.000%
16	RET-23-1	12	3.49%	LD	\$ 10,120,681.99	\$ 54,960.00	9/30/2038	21.95	0.00%	\$ 10,120,681.99	\$ 0.00	0.000%
17	RET-23-2	12	4.43%	LD	\$ 7,763,625.86	\$ 45,990.00	9/30/2038	21.95	0.00%	\$ 7,763,625.86	\$ (0.00)	0.000%
18	RET-23-3	12	3.85%	LD	\$ 5,103,471.91	\$ 28,680.00	8/31/2038	21.95	0.00%	\$ 5,103,471.91	\$ (0.00)	0.000%
19	RET-23-4	12	4.64%	LD	\$ 4,372,489.81	\$ 26,450.00	8/31/2038	21.95	0.00%	\$ 4,372,489.81	\$ (0.00)	0.000%
20	RET-23-5	12	4.57%	LD	\$ 4,440,318.09	\$ 26,650.00	9/30/2038	21.95	0.00%	\$ 4,440,318.09	\$ (0.00)	0.000%
21	RET-23-6	12	3.23%	LD	\$ 5,090,076.63	\$ 26,965.12	8/31/2038	21.95	0.00%	\$ 5,090,076.63	\$ (0.00)	0.000%

Exhibit A - Amended

Co-op Name: Blue Grass Energy Co-op
 Co-op ID: KYG64
 Date Prepared: 8/7/2016
 Interest Rates as of: 7/28/2016
 Financing Amount: \$ 60,279,116
 Scenario Name: RUS Refinance - Single Note - 17 Year Term
 Less \$10MM

Effective Interest Rate: 2.95%
 Stated Interest Rate: 2.95%
 Pat. Capital and Discount Benefit: 0.00%
 Total Interest Difference: \$ 19,109,011
 Total Int. & Pat. Cap. Difference: \$ 19,109,011
 Total Cash Flow Difference: \$ 19,099,012

CFC RUS
 2.95% 4.13%
 2.95% 4.13%



ANNUAL CASH FLOW SUMMARY - WITH ESTIMATED \$10,000 LEGAL FEES

30-Jun	CFC				RUS				Interest Expense Difference	Principal Payment Difference	Patronage Capital Retirement	Total Cash Flow Difference	Net Present Value
	Ending Balance	Principal Payments	Interest Expense	Cash Flows	Ending Balance	Principal Payments	Interest Expense	Cash Flows					
	(60,279,116)		(16,361,442)	(76,640,558)	(70,269,116)	(35,470,454)	(105,739,570)	19,109,011	9,990,000	0	19,099,012	5,093,681	
2016	60,279,116	0	0	0	70,269,116	0	0	0	0	0	(10,000,000)	(10,000,000)	
2017	58,418,815	(1,860,301)	(1,174,302)	(3,034,603)	68,483,652	(1,785,464)	(2,365,716)	(4,151,179)	1,191,414	(74,837)	0	1,116,577	1,072,291
2018	55,574,317	(2,844,498)	(1,685,100)	(4,529,597)	66,273,444	(2,210,208)	(2,771,208)	(4,981,415)	1,086,108	(634,290)	0	451,818	416,689
2019	52,644,763	(2,929,554)	(1,600,043)	(4,529,597)	63,970,334	(2,303,110)	(2,678,305)	(4,981,415)	1,078,262	(626,444)	0	451,818	400,162
2020	49,627,609	(3,017,154)	(1,512,443)	(4,529,597)	61,573,926	(2,396,408)	(2,585,007)	(4,981,415)	1,072,564	(620,746)	0	451,818	384,291
2021	46,520,235	(3,107,374)	(1,422,224)	(4,529,597)	59,069,371	(2,504,555)	(2,476,860)	(4,981,415)	1,054,636	(602,818)	0	451,818	369,049
2022	43,319,945	(3,200,291)	(1,329,307)	(4,529,597)	56,462,718	(2,606,653)	(2,374,762)	(4,981,415)	1,045,456	(593,637)	0	451,818	354,412
2023	40,023,958	(3,295,986)	(1,233,611)	(4,529,597)	53,745,975	(2,716,743)	(2,264,673)	(4,981,415)	1,031,062	(579,244)	0	451,818	340,355
2024	36,629,415	(3,394,543)	(1,135,054)	(4,529,597)	50,917,375	(2,828,600)	(2,152,815)	(4,981,415)	1,017,761	(565,943)	0	451,818	326,856
2025	33,133,368	(3,496,048)	(1,033,550)	(4,529,597)	47,963,086	(2,954,289)	(2,027,126)	(4,981,415)	993,577	(541,759)	0	451,818	313,892
2026	29,532,781	(3,600,587)	(929,010)	(4,529,597)	44,886,501	(3,076,585)	(1,904,830)	(4,981,415)	975,820	(524,002)	0	451,818	301,443
2027	25,824,529	(3,708,252)	(821,345)	(4,529,597)	41,679,358	(3,207,143)	(1,774,273)	(4,981,415)	952,928	(501,110)	0	451,818	289,487
2028	22,005,392	(3,819,137)	(710,460)	(4,529,597)	38,338,255	(3,341,104)	(1,640,312)	(4,981,415)	929,851	(478,033)	0	451,818	278,005
2029	18,072,054	(3,933,337)	(596,260)	(4,529,597)	34,850,557	(3,487,698)	(1,493,718)	(4,981,415)	897,458	(445,640)	0	451,818	266,979
2030	14,021,102	(4,050,953)	(478,645)	(4,529,597)	31,288,723	(3,561,834)	(1,348,465)	(4,910,299)	869,820	(489,119)	0	380,702	216,034
2031	9,849,017	(4,172,085)	(357,513)	(4,529,597)	27,800,320	(3,488,403)	(1,204,081)	(4,692,484)	846,568	(683,682)	0	162,887	88,766
2032	5,552,178	(4,296,839)	(232,758)	(4,529,597)	24,176,057	(3,624,263)	(1,061,618)	(4,685,880)	828,860	(672,576)	0	156,283	81,907
2033	1,126,854	(4,425,324)	(104,273)	(4,529,597)	20,492,103	(3,683,954)	(909,129)	(4,593,083)	804,855	(741,369)	0	63,486	31,907
2034	0	(1,126,854)	(5,545)	(1,132,399)	17,115,996	(3,376,107)	(768,678)	(4,144,785)	763,133	2,249,253	0	3,012,386	1,453,935
2035	0	0	0	0	13,600,880	(3,515,115)	(629,670)	(4,144,785)	629,670	3,515,115	0	4,144,785	1,921,147
2036	0	0	0	0	9,941,640	(3,659,241)	(485,545)	(4,144,785)	485,545	3,659,241	0	4,144,785	1,844,950
2037	0	0	0	0	6,130,371	(3,811,269)	(333,516)	(4,144,785)	333,516	3,811,269	0	4,144,785	1,771,776
2038	0	0	0	0	2,162,462	(3,967,908)	(176,877)	(4,144,785)	176,877	3,967,908	0	4,144,785	1,701,504
2039	0	0	0	0	103,022	(2,059,440)	(42,854)	(2,102,294)	42,854	2,059,440	0	2,102,294	828,798
2040	0	0	0	0	0	(103,022)	(418)	(103,440)	418	103,022	0	103,440	39,162
2041	0	0	0	0	0	0	0	0	0	0	0	0	0
2042	0	0	0	0	0	0	0	0	0	0	0	0	0
2043	0	0	0	0	0	0	0	0	0	0	0	0	0
2044	0	0	0	0	0	0	0	0	0	0	0	0	0
2045	0	0	0	0	0	0	0	0	0	0	0	0	0
2046	0	0	0	0	0	0	0	0	0	0	0	0	0
2047	0	0	0	0	0	0	0	0	0	0	0	0	0
2048	0	0	0	0	0	0	0	0	0	0	0	0	0
2049	0	0	0	0	0	0	0	0	0	0	0	0	0
2050	0	0	0	0	0	0	0	0	0	0	0	0	0
2051	0	0	0	0	0	0	0	0	0	0	0	0	0
2052	0	0	0	0	0	0	0	0	0	0	0	0	0
2053	0	0	0	0	0	0	0	0	0	0	0	0	0
2054	0	0	0	0	0	0	0	0	0	0	0	0	0
2055	0	0	0	0	0	0	0	0	0	0	0	0	0
2056	0	0	0	0	0	0	0	0	0	0	0	0	0
2057	0	0	0	0	0	0	0	0	0	0	0	0	0
2058	0	0	0	0	0	0	0	0	0	0	0	0	0
2059	0	0	0	0	0	0	0	0	0	0	0	0	0
2060	0	0	0	0	0	0	0	0	0	0	0	0	0
2061	0	0	0	0	0	0	0	0	0	0	0	0	0
2062	0	0	0	0	0	0	0	0	0	0	0	0	0
2063	0	0	0	0	0	0	0	0	0	0	0	0	0
2064	0	0	0	0	0	0	0	0	0	0	0	0	0
2065	0	0	0	0	0	0	0	0	0	0	0	0	0
2066	0	0	0	0	0	0	0	0	0	0	0	0	0
2067	0	0	0	0	0	0	0	0	0	0	0	0	0
2068	0	0	0	0	0	0	0	0	0	0	0	0	0
2069	0	0	0	0	0	0	0	0	0	0	0	0	0
2070	0	0	0	0	0	0	0	0	0	0	0	0	0
2071	0	0	0	0	0	0	0	0	0	0	0	0	0
2072	0	0	0	0	0	0	0	0	0	0	0	0	0

* The estimated impact of Pat. Cap. is based on CFC's historical patronage allocation level and CFC's current retirement policy. CFC's patronage allocation & retirement are subject to approval by CFC's Board of Directors
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Exhibit 1