

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHELBY ENERGY COOPERATIVE, INC., )  
FOR AUTHORIZATION TO EXECUTE )  
MORTGAGE AND SECURITY AGREEMENT TO ) CASE NO. 2018- 00093  
UNITED STATES OF AMERICA BY RURAL UTILITIES )  
SERVICE AND NATIONAL RURAL UTILITIES )  
COOPERATIVE FINANCE CORPORATION TO )  
SECURE DEBT FOR \$22,319,000.00 FROM THE )  
FEDERAL FINANCING BANK ("FFB") )

**APPLICATION**

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Pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable law, comes Shelby Energy Cooperative, Inc. ("Shelby Energy"), and respectfully submits this Application seeking expedited approval by April 20, 2018, in order to maintain a closing date not later than May 1, 2018. The closing date will not change if the Public Service Commission (the "Commission") approval is received earlier than the requested date, nor would it have any effect on the terms set forth in this Application. This Application respectfully shows:

1. Shelby Energy is a nonprofit electric cooperative organized under KRS Chapter 279 and is engaged in the business of distributing retail electric power to member-customers in the Kentucky counties of Anderson, Carroll, Franklin, Henry, Jefferson, Oldham, Owen, Shelby, Spencer and Trimble.

2. Pursuant to 807 KAR 5:001, Section 14(1), Applicant's full name and mailing address is Shelby Energy Cooperative, Inc., 620 Old Finchville Road, Shelbyville, Kentucky 40065-1714. The electronic mailing address of Applicant is [psc@shelbyenergy.com](mailto:psc@shelbyenergy.com).

3. Pursuant to 807 KAR 5:001, Section 14(2), Applicant states that it incorporated in the Commonwealth of Kentucky on June 14, 1937, and attests that it is currently in good standing.

4. Pursuant to 807 KAR 5:001, Section 18(1)(b), as of December 31, 2017, Shelby Energy had 12,663 member-customers. It has 2,138 miles of distribution lines in its 10-county service territory, and owns additional facilities necessary to support this distribution system. The total original cost of these distribution lines and additional facilities as of December 31, 2017, was \$93,513,669.00.

5. The financial exhibit, as required by 807 KAR 5:001, Section 12(1)(a) is attached as Exhibit 1 to this Application. There have been no material changes since the end of that twelve (12) month period reported therein.

6. Shelby Energy is not seeking authorization to issue any kind of stock as part of this application.

7. Shelby Energy is borrowing from the Federal Financing Bank (“FFB”) up to \$22,319,000 pursuant to a loan contract with the United States of America, acting by and through the Administrator of the Rural Utilities Service (“RUS”) and will execute a future advance promissory note payable to FFB and guaranteed by RUS with adjustable interest as set out therein. The FFB term for loan advances will be thirty-five (35) years with the first principal payment due March 31, 2020. In consideration of this loan the following documents will need to be executed by Shelby Energy:

A. Future Advance Promissory Note (“Note”) to FFB, a copy of which is attached as Exhibit 2;

B. An RUS Loan Contract (“Loan Contract”), a copy of which is attached as Exhibit 3; and,

C. A Reimbursement Note to RUS, a copy of which is attached as Exhibit 4.

The RUS Designation Notice for this Note is attached hereto as Exhibit 5.

8. As a condition of the RUS Loan Contract, Shelby is required to execute and deliver a Restated Mortgage and Security Agreement dated as of February 1, 2018 (“Restated Mortgage”), between Shelby Energy, as Mortgagor, and RUS, as Mortgagee, and National Rural Utilities Cooperative Finance Corporation (“CFC”) as Mortgagee. A copy of the proposed Restated Mortgage and Security Agreement is attached hereto as Exhibit 6. Shelby Energy, RUS and CFC are parties to that certain Restated Mortgage and Security Agreement dated November 1, 2005, as supplemented, amended or restated (“Original Mortgage) for a maximum indebtedness \$100,000,000.00. A certified copy of said Original Mortgage is attached hereto as Exhibit 7. There are no sinking fund provisions or supplemental mortgages.

9. As a condition of the RUS Loan Contract, Shelby Energy must execute a Uniform Commercial Code Financing Agreement (“UCC Financing Statement”) to RUS and CFC. A true and correct copy of said UCC Financing Statement is attached hereto as Exhibit 8.

10. Shelby Energy will use the proceeds from the FFB loan to fund projects contained in Shelby Energy’s 2018-2021 Construction Work Plan (“CWP”) which projects fall within the “ordinary course of business”. The PS C Staff is of the opinion that each of the proposed projects set out in Shelby Energy’s 2018-2021 CWP satisfy the “ordinary course of business” exemption from the Commission’s Certificate of Public Convenience and Necessity requirement. PSC Staff Opinion 2017-013 is attached hereto as Exhibit 9.

11. Shelby Energy previously received expedited approval from the Commission in Case No. 2016-00160 to refinance RUS debt.

12. Shelby Energy is not seeking Commission approval for the FFB loan as KRS 278.300 (1) exempts this indebtedness as it is subject to the supervision or control of the federal government or an agency thereof.

13. Shelby Energy is seeking Commission approval for the execution of the Restated Mortgage and Security Agreement and the UCC Financing Statement because both the mortgage and the financing statement include CFC as a party, and CFC is not controlled by the federal government or an agency thereof. Accordingly, the exclusion provision of KRS 278.300(10) is not applicable.

In support of approval of this Application, Shelby Energy states:

a. Shelby Energy has deemed it necessary to borrow money for its corporate purposes, specifically to finance construction projects in accordance with the aforementioned 2018-2021 CWP, and to execute a promissory note to FFB, and to mortgage and pledge its property for the payment of the same through the guarantee by RUS;

b. Shelby Energy desires to enter into the Restated Mortgage and UCC Financing Statement to which all secured debt of Shelby Energy shall be secured on parity;

c. The Restated Mortgage and UCC Financing Statement restates and consolidates the Original Mortgage while preserving the priority of the lien under the Original Mortgage securing the payment of Shelby Energy's outstanding obligations secured under the Original Mortgage; and,

d. In order for the Restated Mortgage and UCC Financing Statement to be valid and legally binding instruments of Shelby Energy authorization from the Commission is required.

14. 807 KAR 5:001, Section 11(2)(c) is not applicable since no property is being acquired in conjunction with this financing.

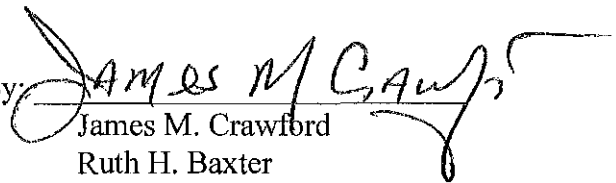
15. There are no fees or expenses to close the loan from FFB, except for legal fees and expenses for Shelby Energy's attorney to obtain Commission approval for this transaction; to prepare and submit to FFB the opinion of counsel, note, and loan agreement, and to provide title opinions and record mortgages in ten (10) counties. The legal fees and recording expenses are not expected to exceed \$4,000.00.

WHEREFORE, Shelby Energy requests that the Commission issue an Order authorizing Shelby Energy to execute the Restated Mortgage and UCC Financing Agreement for the CFC as stated herein, and for any other relief to which it may be entitled.

This the 7<sup>th</sup> day of March, 2018.

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