

ORIGINAL



Your Touchstone Energy® Cooperative 

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

ELECTRONIC APPLICATION OF)	
BIG RIVERS ELECTRIC CORPORATION)	Case No.
FOR APPROVAL TO ISSUE)	2020-00153
EVIDENCES OF INDEBTEDNESS)	

**Responses to Commission Staff's
Initial Request for Information
dated June 29, 2020**

FILED: July 6, 2020

ORIGINAL

BIG RIVERS ELECTRIC CORPORATION
ELECTRONIC APPLICATION OF
BIG RIVERS ELECTRIC CORPORATION
FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS
CASE NO. 2020-00153

VERIFICATION

I, Paul G. Smith, verify, state, and affirm that the information request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Paul Smith

Paul G. Smith

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

6th SUBSCRIBED AND SWORN TO before me by Paul G. Smith on this the
day of July, 2020.

Joy P. Parsley

Notary Public, Kentucky State at Large

My Commission Expires _____

Notary Public, Kentucky State-At-Large
My Commission Expires: July 10, 2022
ID: 604480

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1 **Item 1)** *Refer to the application, paragraph 2, regarding the potential*
2 *delaying of the issuance of the 2020 Bonds. Explain in detail the factors that*
3 *BREC will evaluate and consider in determining whether to delay to the*
4 *issuance of the 2020 Bonds and provide any anticipated additional savings*
5 *could be achieved as well as additional costs that could be incurred by any*
6 *delay in issuing the 2020 Bonds.*

7

8 **Response)** The credit markets are currently disrupted due to the COVID-19
9 pandemic. Big Rivers, in consultation with its finance advisor and investment bank,
10 will evaluate the market conditions and will issue the 2020 Bonds when the market
11 supports the issuance to provide the maximum interest rate savings. Based on the
12 estimated applicable interest rate for a three-month LIBO loan of 2%, Big Rivers
13 would recognize approximately \$833,000 of additional interest savings utilizing the
14 three-month bridge loan versus the current 6% coupon rate. The delay exposes the
15 bonds to the risk that additional costs could be incurred if market interest rates
16 increase, rather than decrease.

17

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1

2 **Witness)** Paul G. Smith

3

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- 1 Item 2) *Refer to the application, paragraph 5.*
- 2 a. *Explain what "certain" fund BREC will use to pay the interest due*
3 *on the 2010A Bonds and identify the anticipated amount of interest*
4 *that will be owed through the redemption date, which is expected to*
5 *be on or about July 15, 2020.*
- 6 b. *If BREC uses the proceeds from the temporary bridge loan under the*
7 *company's revolving credit to repay the principal amount of the*
8 *2010A Bonds due on the redemption date, state whether BREC must*
9 *wait the entirety of the three-month term of the bridge loan before*
10 *the 2020 Bonds are issued.*
- 11 c. *State under what circumstances will BREC consider renewing the*
12 *three-month term, whether the decision to renew would be*
13 *dependent upon a decision to delay the issuance of the 2020 Bonds,*
14 *and, if so, provide all associated costs and savings.*
- 15 d. *BREC estimates an interest savings of \$833,000 during the three-*
16 *month bridge loan period. Provide the total savings net any costs.*

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1 *e. Explain whether using the bridge loan will result in additional*
2 *interest savings or lower interest savings, as compared to*
3 *immediately refinancing the 2010A Bonds with the 2020 Bonds.*

4
5 **Response)**

- 6 a. Big Rivers will pay the approximately \$2.5 million interest owed through
7 the redemption date using cash on hand.
- 8 b. When utilizing Big Rivers' revolving credit to repay the 2010A Bonds
9 principal amount, Big Rivers has the option of a 1-, 2-, 3- or 6-month term.
10 Big Rivers is not required to wait the entirety of the bridge loan term before
11 issuing the 2020 Bonds.
- 12 c. The COVID-19 pandemic has disrupted the credit markets. Because of the
13 disruption, Big Rivers may decide it would be advantageous to delay the
14 issuance of the new bonds in order to maximize the interest rate savings
15 that the new issuance will likely provide. As such, Big Rivers may extend
16 the term of the bridge loan using the 1-, 2-, 3- or 6-month term options.
17 Based on the estimated applicable interest rate for a three-month LIBO

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1 loan of 2%, Big Rivers would recognize approximately \$833,000 of
2 additional interest savings utilizing an additional three-month term of the
3 bridge loan.

4 d. The estimated interest savings of \$833,000 during the three-month bridge
5 loan period is net of any costs.

6 e. The 2020 bonds cannot be issued until the Commission has issued its order
7 approving the financing, and the 33-day appeal period has expired.
8 Therefore, the bridge loan will result in interest savings as compared to
9 retaining the 2010A Bonds until the 2020 Bonds can be issued. The bridge
10 loan will provide approximately \$278,000 of interest savings per month
11 while allowing Big Rivers to issue the 2020 Bonds at a later date in order
12 to maximize the long-term interest rate savings that the new issuance will
13 likely provide.

14

15

16 **Witness)** Paul G. Smith

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1 **Item 3)** *Refer to the application, paragraph 6. Provide an itemized list*
2 *for the estimated \$1.3 million up-front cost to BREC for the refunding of the*
3 *2010A Bonds and the issuance of the 2020 Bonds.*

4

5 **Response)** Below is an itemized list of the estimated \$1.3 million of up-front costs
6 for the refunding of the 2010A Bonds and the issuance of the 2020 Bonds. For
7 reference, the up-front costs for the issuance of the 2010A Bonds was approximately
8 \$2.2 million.

9 1. \$400,000 = Underwriter Fees;

10 2. \$200,000 = Co-Manager Fees;

11 3. \$325,000 = Bond Counsel;

12 4. \$100,000 = Bond Consultation;

13 5. \$125,000 = Issuer-related Fees;

14 6. \$110,000 = Rating Agency Fees; and

15 7. \$15,000 = Trustee and Printing Costs.

16

17 **Witness)** Paul G. Smith

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1 **Item 4)** *Refer to the application, paragraphs 7a and 15.*

2 *a. Confirm that the entirety of the 2020 Bonds will be paid in full by*
3 *the end of the maximum useful life of the pollution control*
4 *equipment.*

5 *b. Explain how BREC intends to pay the one-time bullet payment.*

6

7 **Response)**

8 a. Big Rivers confirms that the maturity date for the 2020 Bonds will be no
9 later than August 31, 2031, which is the end of the maximum useful life of
10 the pollution control facilities according to an engineering estimate made
11 in connection with the issuance of the 2001A Bonds.

12 b. Big Rivers intends to pay the one-time bullet payment in 2031 using cash
13 on hand.

14

15

16 **Witness)** Paul G. Smith

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1 **Item 5)** *Refer to the application, paragraph 8. Provide the net present*
2 *value of any savings realized at the coupon rate on the 2020 Bonds of 5*
3 *percent versus the current coupon rate.*

4

5 **Response)** The net present value of savings of the 2020 Bonds issued at 5% versus
6 the current coupon rate of 6% is approximately \$8.0 million.

7

8

9 **Witness)** Paul G. Smith

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1 **Item 6)** *Refer to the application, paragraph 15. Explain the criteria that*
2 *BREC will analyze when determining whether amortizing principal*
3 *payments will be more beneficial than a single bullet payment at maturity.*

4

5 **Response)** Big Rivers, its finance consultant, and the investment banker intend to
6 canvass interested market investors to obtain rate demands for a single bullet and
7 an amortizing structure. If the amortizing structure provides a meaningfully lower
8 rate, Big Rivers will analyze its ability to meet the cash flow demands of the
9 accelerated principal payments.

10

11

12 **Witness)** Paul G. Smith

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- 1 **Item 7)** *Refer to the application, paragraph 17. On or near July 15, 2020,*
2 *BREC states it will use the revolving line of credit as a bridge loan.*
- 3 *a. If the Commission issues an Order prior to or on July 15, 2020,*
4 *explain whether BREC will still use the bridge loan.*
- 5 *b. Provide any savings BREC will realize if the Commission issues an*
6 *Order prior to or on July 15, 2020.*

7
8 **Response)**

- 9 a. The issuance of the bonds requires non-appealable Commission approval.
10 Due to the 33-day appeal period, the 2020 bonds will not be able to be issued
11 on July 15, 2020. Accordingly, the bridge loan will provide interest savings
12 not available to any other financing alternative.
- 13 b. Per the response to sub-part a. above, there will be no savings to be realized
14 if the Commission issues an Order prior to or on July 15, 2020.

15
16
17 **Witness)** Paul G. Smith