

**ORIGINAL**



Your Touchstone Energy® Cooperative 

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

**In the Matter of:**

<b>ELECTRONIC APPLICATION OF</b>	)	
<b>BIG RIVERS ELECTRIC CORPORATION</b>	)	<b>Case No.</b>
<b>FOR APPROVAL TO ISSUE</b>	)	<b>2020-00291</b>
<b>EVIDENCES OF INDEBTEDNESS</b>	)	

**Response to Commission Staff's  
Initial Request for Information  
dated October 7, 2020**

**FILED:      October 12, 2020**

**ORIGINAL**

**BIG RIVERS ELECTRIC CORPORATION**  
**ELECTRONIC APPLICATION OF**  
**BIG RIVERS ELECTRIC CORPORATION**  
**FOR APPROVAL TO ISSUE EVIDENCES OF INDEBTEDNESS**  
**CASE NO. 2020-00291**

**VERIFICATION**

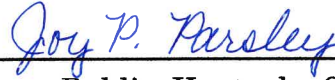
I, Paul G. Smith, verify, state, and affirm that the data request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry,



\_\_\_\_\_  
Paul G. Smith

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

SUBSCRIBED AND SWORN TO before me by Paul G. Smith on this the  
12th day of October, 2020.



\_\_\_\_\_  
Notary Public, Kentucky State at Large

My Commission Expires \_\_\_\_\_

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

**BIG RIVERS ELECTRIC CORPORATION**  
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**October 12, 2020**

1 **Item 1)** *Refer to the application, paragraph 7. BREC estimates an*  
2 *annual interest savings of approximately \$0.8 million. Provide the net*  
3 *present value of this savings over the term of the proposed loan. Provide all*  
4 *supporting calculations and documentation in Excel spreadsheet format,*  
5 *with formulas intact and unprotected and all rows and columns accessible.*

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7 **Response)** Please see the attachment to this response which summarizes nominal  
8 savings of \$8.3 million and present value savings of \$7.0 million over the 10-year  
9 term of the proposed loan.

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12 **Witness)** Paul G. Smith

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**Big Rivers Electric Corporation**  
**Case No. 2020-00291**  
**CFC Term Loan Savings**

<b>Principal</b>	\$ 83,300
<b>Rate</b>	1.00%
<b>Interest</b>	<u>\$ 833</u>

<u>Year</u>	<u>Nominal Savings</u>	<u>Present Value</u>	
		<u>4.00%</u>	<u>\$</u>
1	\$ 833	100.00%	\$ 833
2	833	96.15%	801
3	833	92.46%	770
4	833	88.90%	741
5	833	85.48%	712
6	833	82.19%	685
7	833	79.03%	658
8	833	75.99%	633
9	833	73.07%	609
10	833	70.26%	585
<b>Total</b>	<u>\$ 8,330</u>		<u>\$ 7,027</u>

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1 **Item 2)**     *Refer to the application, paragraph 8a. BREC states that the*  
2 *proposed loan agreement with Cooperative Finance Corporation (CFC) has*  
3 *a ten-year term and estimated maturity date of December 31, 2030.*

4     *a. Provide when BREC expects to close on the proposed loan.*

5     *b. Refer also to Case No. 2020-00153, final Order, page 3.<sup>2</sup> In Case*  
6 *No. 2020-00153, the maturity date of the 2020 Bonds Loan*  
7 *Agreement was to be no later than August 31, 2031, or at the end of*  
8 *the maximum useful life of the pollution control facilities.*

9     *(1) Provide a side-by-side comparison of the estimated annual*  
10 *costs associated with the 2020 Bonds Loan Agreement in*  
11 *Case No. 2020-00153 and the proposed loan with CFC.*

12     *(2) Explain why the proposed loan with CFC is a shorter term*  
13 *than the 2020 Bonds Loan Agreement in Case No. 2020-00153.*

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<sup>2</sup> Case No. 2020-00153, *Electronic Application of Big Rivers Electric Corporation for Approval to Issue Evidences of Indebtedness* (Ky. PSC Aug. 13, 2020).

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1 **Response)**

2       a. The interest rate environment has recently experienced a notable  
3       increase in the yield curve. Accordingly, Big Rivers will attempt to close  
4       on the proposed loan as soon as possible after the expiration of the appeal  
5       time of the Commission's final order.

6       b.

7       (1) The table on the following page shows a side-by-side comparison  
8       of the estimated annual costs associated with the 2020 Bonds Loan  
9       Agreement in Case No. 2020-0153 and the proposed CFC loan.

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1

<b>Big Rivers Electric Corporation Comparison of Estimated Annual Costs (\$ 000s)</b>		
<b>Year</b>	<b>2020 Bonds Loan Agreement</b>	<b>Proposed CFC Loan</b>
2021	\$3,124	\$2,166
2022	\$3,124	\$2,166
2023	\$3,124	\$2,166
2024	\$3,124	\$2,166
2025	\$3,124	\$2,166
2026	\$3,124	\$2,166
2027	\$3,124	\$2,166
2028	\$3,124	\$2,166
2029	\$3,124	\$2,166
2030	\$3,124	\$2,166

2

3

Note: 2020 Bonds assumes a 3.75% yield and CFC loan assumes a 2.6% interest rate.

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(2) The proposed CFC loan includes a 10-year maturity, which represented a slight rate discount to a term in excess of 10 years.

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The 2020 Bonds Loan Agreement allowed for a maturity no later

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1                   than August 31, 2031, or approximately 11 years. The ultimate  
2                   issuance of the 2020 Bonds would have depended on the market  
3                   rates received, which Big Rivers believes would also reflect a  
4                   premium for a term in excess of 10 years. Accordingly, the CFC  
5                   loan and the 2020 Bonds were both likely to have the same 10-year  
6                   term.

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9   **Witness)**   Paul G. Smith

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1 **Item 3)**     *Refer to the application, paragraph 10.*

2         *a. Provide a list of all estimated closing costs.*

3         *b. Compare these estimated closing costs with those BREC expected*  
4             *to incur with the 2020 Bonds Loan Agreement in Case No. 2020-*  
5             *00153.*

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7 **Response)**

8         a. Big Rivers estimates it will incur closing costs consisting almost entirely  
9             of legal fees of approximately \$50,000.

10        b. Big Rivers expected to incur closing costs of approximately \$1.3 million  
11           with the 2020 Bonds Loan Agreement, of which approximately \$500,000  
12           has been expended to–date with the remainder to be incurred with the  
13           public offering.

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16 **Witness)**   Paul G. Smith

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1    **Item 4)**     *Provide the amortization schedule of the proposed loan.*

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3    **Response)** The proposed CFC loan will be a 10–year balloon note, with the entire  
4    principal amount due at maturity. Accordingly, there will be no amortization of the  
5    proposed loan.

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8    **Witness)**    Paul G. Smith

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1 **Item 5)** *Explain how the proposed loan with CFC will impact BREC's*  
2 *credit ratings.*

3

4 **Response)** The proposed CFC loan represents a loan of a similar tenor, but a lower  
5 interest rate than companies of similar credit quality as Big Rivers are currently  
6 receiving when issuing pollution control bonds in the credit market. Accordingly,  
7 the change in Big Rivers' financing plan has been communicated to the rating  
8 agencies and has received a positive response.

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11 **Witness)** Paul G. Smith

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