

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENERGY CORP. FOR)	
AUTHORIZATION TO BORROW \$27,814,894)	
FROM CFC AND EXECUTE NECESSARY NOTES)	CASE NO.
AND TO PREPAY RURAL UTILITIES SERVICE)	2015-00191
TREASURY NOTES OF THE SAME AMOUNT)	

ORDER

On June 19, 2015, Kenergy Corp. (“Kenergy”) filed its application seeking Commission authority to execute a note to National Rural Utilities Cooperative Finance Corporation (“CFC”) in an amount up to \$27,814,894.¹ Kenergy intends to use the proceeds from the CFC loan to refinance and discharge part of its indebtedness to the Rural Utilities Service (“RUS”). Due to the lower interest rates offered by CFC, Kenergy projects a lifetime cash flow savings of approximately \$6,731,398² over the life of the loan by refinancing \$27,814,894.

As of April 30, 2015, Kenergy’s outstanding balance of RUS debt was \$111,492,438.65.³ The outstanding RUS balance consists of debt with interest rates varying from 0 to 5.125 percent. Kenergy also has outstanding long-term debt with CFC and CoBank, ACB (“CoBank”). Its outstanding balance of CFC debt is \$968,699.86,

¹ Application at numbered paragraph 7.

² *Id.* at numbered paragraph 13.

³ *Id.*, Exhibit 1, Attachment A.

with an interest rate of 2.20 percent.⁴ Kenergy's outstanding balance of CoBank debt is \$19,811,041.15, with interest rates varying from 2.08 percent to 5.36 percent.⁵

Of its total outstanding RUS debt, Kenergy proposes to refinance 12 RUS loans in the aggregate amount of \$27,814,894, with interest rates varying from 4.47 percent to 5.13 percent under the CFC program.⁶ The refinancing of the RUS secured debt is permitted by RUS under Article 11, Section 2.02, of the RUS Mortgage. CFC's offer to refinance the RUS notes at a fixed interest rate of 4.11 percent expires November 9, 2015.⁷ In its application, Kenergy stated that the closing date was scheduled for October 2, 2015,⁸ and to facilitate closing the new loan by that date, Kenergy has requested an order by September 25, 2015.⁹ On August 7, 2015, Kenergy filed a notice informing the Commission that RUS had established a closing date of October 21, 2015.

Kenergy proposes to execute one note in conjunction with the borrowing from CFC at a fixed interest rate of 4.11 percent.¹⁰ The new CFC note will be amortized for a period of 22.5 years,¹¹ and the principal repayment schedule will be slightly less than

⁴ *Id.*

⁵ *Id.*

⁶ Application, Exhibit 2, Attachment B at 2. In paragraph 8 of the application, Kenergy indicated that it expects the actual payoff to be very close to \$27,814,894.

⁷ See cover letter accompanying Kenergy's application.

⁸ See Kenergy's Response to Commission Staff's Informal Conference Information Request. RUS has informed Kenergy that the first available closing date is approximately October 15, 2015.

⁹ See cover letter accompanying Kenergy's application.

¹⁰ Application at numbered paragraph 7.

¹¹ Kenergy's Response to Commission Staff's Initial Request for Information ("Staff's First Request"), Item 1.

the consolidated principal payments of the refinanced RUS notes.¹² The weighted average life of the new CFC note will be 12.56 years, which is slightly less than the weighted average remaining life of the RUS notes selected for refinancing of 14.69 years.¹³ Kenergy provided a cash flow analysis which indicates it would save \$6,731,398 over the life of the proposed loan.¹⁴ The net present value of the cash flow savings was provided as part of the analysis prepared by CFC for Kenergy. CFC determined that the fixed interest rate would result in a positive net present value cash flow of \$2,849,389 at an effective interest rate of 3.85 percent.¹⁵

The Commission has reviewed the proposed refinancing and finds Kenergy's proposal reasonable. Kenergy has determined that it can refinance a portion of its RUS debt at a lower effective interest rate and experience cash flow savings over the period of the loan. The Commission commends Kenergy for taking advantage of the financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the RUS payoff and the new CFC loan will not be known until the refinancing transaction is finalized. Therefore, Kenergy should provide the Commission with the exact amount of the new CFC loan within ten days of finalizing the transaction. In addition, Kenergy should provide an updated version of Exhibit 2,

¹² Application, Exhibit 2, Attachment B at 3.

¹³ Kenergy's Response to Staff's First Request, Item 1.b.

¹⁴ Application, Exhibit 2, Attachment B at 3.

¹⁵ Kenergy's Response to Staff's First Request, Item 3.b.

Attachment B, page 3, of its application reflecting the cash flow analysis of the new CFC loan.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from CFC is for lawful objects within the corporate purposes of Kenergy, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Kenergy should execute its note as security for the proposed loan in the manner described in its application.

3. Within ten days of finalizing the refinancing transaction, Kenergy should notify the Commission in writing of the exact amount of the new CFC loan. Kenergy should include with the notice an updated version of Exhibit 2, Attachment B, page 3, of its application reflecting the savings based on the actual amount of the new CFC loan.

4. Within ten days of the execution of the new CFC loan documents, Kenergy should file with the Commission three copies of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Kenergy's application.

6. The terms and conditions of the new CFC loan should be consistent with the CFC refinancing program as described in Kenergy's application.

IT IS THEREFORE ORDERED that:

1. Kenergy is authorized to borrow from CFC up to \$27,814,894, but no more than the total amount needed to pay off the RUS notes proposed to be refinanced as

identified in the application. The loan maturity date and interest rate shall be in accordance with the CFC refinancing program as described in Kenergy's application.

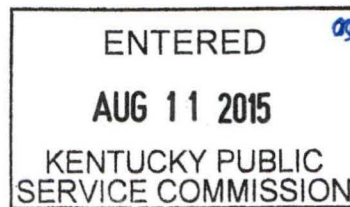
2. Kenergy shall execute the CFC loan documents as authorized herein.

3. Kenergy shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to Findings 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:


Executive Director

Case No. 2015-00191

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