

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF SHELBY ENERGY COOPERATIVE,)	
INC. FOR AUTHORIZATION TO BORROW \$15,796,145)	
FROM THE NATIONAL RURAL UTILITIES COOPERATIVE)	CASE NO.
FINANCE CORPORATION AND EXECUTE THE)	2016-00160
NECESSARY NOTE AND TO REPAY RURAL UTILITIES)	
SERVICE NOTES OF THE SAME AMOUNT)	

ORDER

On May 3, 2016, Shelby Energy Cooperative, Inc. ("Shelby Energy") filed an application seeking Commission authority to execute a note to National Rural Electric Cooperative Finance Corporation ("CFC") in an amount up to \$15,796,145.¹ On May 11, 2016, an informal teleconference ("IC") was held to clarify certain issues in this case. Shelby Energy filed responses to two rounds of discovery issued by Commission Staff. There are no intervenors in this case, and the matter is submitted to the Commission for a decision based upon the evidentiary record.

Shelby Energy intends to use the proceeds from the proposed CFC loan to refinance and discharge \$15,796,145 of its outstanding indebtedness to the Rural Utilities Service ("RUS"). The refinancing of the RUS secured debt is permitted by RUS under Article II, Section 2.02, of the RUS Mortgage.² The outstanding RUS balance consists of fixed- and variable-rate debt with interest rates varying from 0.28

¹ Application, paragraph 7.

² Shelby Energy's response to Commission Staff's First Request for Information ("Staff's First Request"), Item 6.

percent to 6.0 percent.³ Shelby Energy proposes to refinance eight RUS loans in the aggregate amount of \$15,796,145 with a single CFC note of the same amount at a fixed interest rate of 3.82 percent.⁴ CFC's offer to refinance the RUS notes expires June 17, 2016.⁵ Shelby Energy requests that a decision be rendered by May 23, 2016, in order for it to close the transaction by June 17, 2016.

Two variable-rate RUS notes and one fixed-rate note have a lower interest rate than the rate under the refinancing. However, under RUS requirements for financing loan repayment, the three notes must be included in the refinancing plan because they were part of the Construction Work Plans.⁶ The new CFC note will have a principal repayment tenor of 23 years, with the principal repayment schedule being approximately 12 months less than the longest maturity date of the RUS notes being refinanced.⁷ Shelby Energy provided a cash flow analysis which indicates that the refinancing would save \$1,595,253 over the life of the proposed loan.⁸ Shelby Energy

³ Application, Exhibit 5.

⁴ Application, paragraph 7. In paragraph 8 of the application, Shelby Energy indicated that it expects the actual payoff to be \$15,796,145. In the event the actual payoff of the RUS loans is different, Shelby Energy proposes to make up any difference with internal cash. In Shelby Energy's response to Staff's First Request, Item 2.b., Shelby Energy stated that there will be one loan facility (Loan #9017) with multiple advances/tranches thereunder which will all be funded at the closing.

⁵ Application at 1.

⁶ Shelby Energy's response to Staff's First Request, Item 4.b. Shelby Energy is refinancing notes under its 1997-2000 (Loan AP60) and 2010-2014 (Loan AT44) Construction Work Plans.

⁷ Application, paragraph 7.

⁸ Shelby Energy's response to Staff's First Request, Item 5.b. at 2.

determined that the fixed interest rate would result in a positive net present value (“NPV”) cash flow of \$590,304 at the effective interest rate of 3.82 percent.⁹

The Commission has reviewed the proposed refinancing and finds Shelby Energy’s proposal to be reasonable due to the lower effective interest rate and cash flow savings Shelby Energy would see over the period of the loan. The Commission commends Shelby Energy 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, Shelby Energy should provide the Commission with the exact amount of the new CFC loan within ten days of finalizing the transaction. In addition, Shelby Energy should provide an updated version of the response to Staff’s First Request, Item 5.b., page 2, 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 Shelby Energy, 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.

⁹ *Id.* Also see Shelby Energy’s response to Staff’s First Request, Item 3.d. The NPV includes \$3,000 in legal fees and a comparison was performed as if all RUS loans at either a variable rate or with a repricing date were fixed to maturity at current rates for similar long-term RUS debt. Shelby Energy used a four percent discount rate in the application. The NPV listed above is based on a 3.82 percent discount rate.

2. Shelby Energy 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, Shelby Energy should notify the Commission in writing of the exact amount of the new CFC loan. Shelby Energy should include with the notice an updated version of Staff's First Request, Item 5.b., page 2, 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, Shelby Energy should file with the Commission one copy in paper medium and an electronic version of the loan documents.

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

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

IT IS THEREFORE ORDERED that:

1. Shelby Energy is authorized to borrow from CFC up to \$15,796,145, 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 Shelby Energy's application.

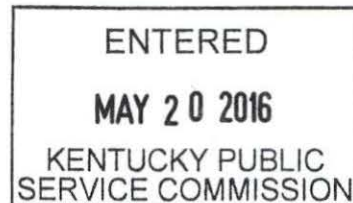
2. Shelby Energy shall execute the CFC loan documents as authorized herein.

3. Shelby Energy shall comply with all matters set out in finding paragraphs 3 through 6 as if they were individually so ordered.

4. Any documents filed in the future pursuant to finding paragraphs 3 and 4 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:

A handwritten signature in blue ink that reads "Aaron D. Guinness".

Acting Executive Director

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