

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On September 22, 2020, Big Rivers Electric Corporation (BREC) filed an application seeking Commission approval to refinance the \$83.3 million BREC borrowed under its revolving credit facility with Cooperative Finance Corporation (CFC), and related evidences of indebtedness, with a term loan from CFC (2020 Term Loan) of the same amount. There are no intervenors in this proceeding, and BREC responded to one round of discovery from Commission Staff. This matter now stands submitted for a decision based upon the written record.

BACKGROUND

In Case No. 2020-00129, the Commission authorized BREC to enter into a revolving secured credit agreement with CFC and other lenders for the amount of \$150 million (2020 Credit Agreement).¹ The 2020 Credit Agreement allowed, among other things, for the availability of revolving credit for capital expenditures, general corporate use, and provided BREC the ability to issue letters of credit. BREC also was granted authority to use the 2020 Credit Agreement as a “bridge loan” for the refinancing of bonds as COVID-19 and the resulting disruption of the credit markets could delay the

¹ Case No. 2020-00129, *Electronic Application of Big Rivers Electric Corporation for Approval to Issue Evidences of Indebtedness* (Ky. PSC May 8, 2020).

issuance of new bonds, and such a bridge loan would allow BREC to maximize interest rate savings.² In Case No. 2020-00153, BREC was authorized to issue certain evidences of indebtedness in connection with the refunding of Pollution Control Refunding Revenue Bonds, Series 2010A (2010 Bonds), issued by the County of Ohio, Kentucky (Ohio County), in the aggregate principal amount of \$83 million, and the issuance by Ohio County of a like principal amount of Pollution Control Refunding Revenue Bonds, Series 2020 (2020 Bonds).³ The 2020 Bonds were projected to be issued on or about July 15, 2020; however, BREC noted that the use of the prior approved 2020 Credit Agreement may be necessary to bridge the time between the redemption date and bond issuance, but that once the 2020 Bonds were issued, the proceeds would repay the principal amount borrowed under the revolving credit facility.⁴ On July 15, 2020, BREC redeemed the 2010 Bonds under the 2020 Revolving Credit Agreement in the amount of \$83.3 million at an interest rate of 1.88 percent.⁵

PROPOSED INDEBTEDNESS

Rather than issue the evidences of indebtedness relating to the new pollution control bonds as approved in Case No. 2020-00153, BREC proposes to enter into the proposed 2020 Term Loan. BREC states that prior to seeking the Commission's authority in Case No. 2020-00153, BREC had evaluated financing alternatives; however, at the time, the interest rates were higher than the anticipated interest rates for the 2020 Bonds.

² *Id.* at 2.

³ Case No. 2020-00153, *Electronic Application of Big Rivers Electric Corporation for Approval of Issue Evidences of Indebtedness* (Ky. PSC Aug. 13, 2020) (Final Order).

⁴ *Id.* at 2–3.

⁵ Application, paragraph 4.

BREC states that market conditions have since changed, and it has determined that the proposed 2020 Term Loan is now advantageous and will result in additional interest savings over what would have been achieved by issuing the new pollution control bonds.⁶ The estimated interest rate for the 2020 Bonds was estimated to be 5.00 percent and result in an annual interest expense savings of approximately \$1.5 million to \$1.9 million, a net present value of approximately \$8 million.⁷ The proposed 2020 Term Loan will bear an interest rate of 2.60 percent and will increase the annual savings by more than \$800,000 per year, a net present value of over \$700,000 per year.⁸ The proposed loan agreement with CFC is a 10-year balloon note with an estimated maturity date of December 31, 2030.⁹ This date is slightly sooner than the 2020 Bonds' estimated August 31, 2031 maturity date. However, BREC states that the shorter term offered a slight rate discount because the term was not in excess of ten years.¹⁰ Estimated closing costs of the proposed 2020 Term Loan are \$50,000, substantially less than the \$1.275 million of closing costs associated with the 2020 Bonds.¹¹

⁶ Application, paragraph 3.

⁷ Case No. 2020-00153, *Big Rivers Electric Corporation*, Final Order at 3.

⁸ Application, paragraph 7, and BREC's Response to Staff's First Request for Information (Staff's First Request) (filed Oct. 12, 2020), Item 1.

⁹ Application, paragraph 8, and BREC's Response to Staff's First Request (filed Oct. 12, 2020), Item 4.

¹⁰ BREC's Response to Staff's First Request (filed Oct. 12, 2020), Item 2 and Item 4

¹¹ To date, BREC has expended \$500,000 of closing costs towards the 2020 Bonds. See Case No. 2020-00153, *Big Rivers Electric Corporation*, Final Order at 3, and BREC's Response to Staff's First Request (filed Oct. 12, 2020), Item 3.

DISCUSSION

BREC states that the potential savings will not only benefit BREC, but also BREC's members and the members' retail member-customers.¹² Additionally, such savings have the potential to build member equity and reduce future needs for a rate increase.¹³ BREC notes that under the Member Rate Stability Mechanism (MRSM) Tariff established in Case No. 2020-00064, to the extent BREC achieves the 1.30 TIER threshold in its MRSM tariff, 40.00 percent of the savings will be passed through to members and their member-customers as a bill credit.¹⁴

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that BREC's proposed financing is for lawful objects within the corporate purposes of BREC's utility operations, is necessary and appropriate for and consistent with the proper performance 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. The Commission recognizes the steps BREC has taken to mitigate the loss of 850 MW of load from the closing of two aluminum smelters and the resulting below-investment-grade credit rating. BREC has set forth strategies with a goal to regain all three of its investment credit ratings, and notes that this change in financing has received a favorable response from the credit rating agencies.¹⁵ The Commission

¹² Application, paragraph 7.

¹³ *Id.*

¹⁴ *Id.*, and Case No. 2020-00064, *Electronic Application of Big Rivers Electric Corporation for Approval to Modify its MRSM Tariff, Cease Deferring Deprecation Expenses, Establish Regulatory Assets, Amortize Regulatory Assets, and Other Appropriate Relief* (Ky. PSC June 25, 2020).

¹⁵ BREC's Response to Staff's First Request (filed Oct. 12 2020), Item 5.

appreciates BREC's utilization of the bridge loan as it allowed BREC to maximize potential savings and find a more cost-effective financing alternative.

IT IS THEREFORE ORDERED that:

1. BREC is authorized to enter into the 2020 Term Loan with CFC for the purpose of refinancing the temporary bridge loan borrowed under the 2020 Revolving Credit Agreement.

2. The loan maturity dates and interest rates shall be in accordance with the financing proposal as described in BREC's application.

3. If the actual terms and conditions of the 2020 Term Loan differ from those set forth in the application, BREC shall file with the Commission, within 30 days of executing the loan documents, amortization schedules and workpapers showing the net present value savings that will result from the financing.

4. BREC is authorized to execute, deliver, and perform its obligation under the agreements and documents as set out in its application and to perform the transactions contemplated by such agreements.

5. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in BREC's application.

6. BREC shall file with the Commission, within 30 days of finalizing the financing transaction, a statement setting forth the date or dates of issuance of evidences of indebtedness authorized herein, the proceeds of such issuances, the interest rates, the maturity date(s), all fees and expenses involved in the issuance of these evidences of indebtedness, whether or not the Guaranty was entered into, and if it was, the economic analysis showing the benefit of the Guaranty.

7. Any document filed pursuant to ordering paragraph 6 of this Order shall reference this case number and shall be retained in the post-case correspondence file.

8. The Commission directs BREC to the Commission's March 16, 2020, and March 24, 2020 Orders in Case No. 2020-00085¹⁶ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency.

9. This case is closed and removed from the Commission's docket.

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.

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¹⁶ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

By the Commission



ATTEST:



Deputy Executive Director

Case No. 2020-00291

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