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P.O. Box 990 • 1201 Lexington Road • Nicholasville, Kentucky 40340-0990  
Phone: 888-546-4243 • Fax: 859-885-2854 • [www.bgenergy.com](http://www.bgenergy.com)

February 21, 2013

Jeff Derouen, Executive Director  
Kentucky Public Service Commission  
P O Box 615  
Frankfort Kentucky 40602

Dear Mr. Derouen,

We are filing an application requesting that the Kentucky Public Service Commission allow Blue Grass Energy to obtain a loan in the amount of \$1,200,000.00 from the National Rural Utilities Cooperative Finance Corporation. This loan will be used to finance an Energy Conservation Management Services Contract project with the Blue Grass Army Depot. An original and 10 copies of the application and exhibits are included.

If you have any questions, please contact me at (859) 885-2118 or email [donalds@bgenergy.com](mailto:donalds@bgenergy.com). As always, your continued assistance and cooperation is appreciated.

Sincerely,

A handwritten signature in cursive script that reads "J. Donald Smothers".

J. Donald Smothers  
Vice President, Financial Services

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF THE BLUE GRASS ENERGY )  
COOPERATIVE CORPORATION FOR AN ORDER )  
PURSUANT TO KRS 278.300 AND 807 KAR 5:001, )  
SECTION 11 AND RELATED SECTIONS )  
AUTHORIZING THE COOPERATIVE TO OBTAIN )  
A LOAN IN THE AMOUNT OF \$1,200,000.00 FROM )  
THE NATIONAL RURAL UTILITIES )  
COOPERATIVE FINANCE CORPORATION )

CASE NO. \_\_\_\_\_

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APPLICATION

The Petition of Blue Grass Energy Cooperative Corporation (hereafter referred to as “Blue Grass Energy”) respectfully shows:

1. Applicant is a cooperative corporation organized and existing under the laws of the Commonwealth of Kentucky and is engaged in the business of purchasing and selling electric current and maintaining an electric distribution system. The applicant now operates and does business in the counties of Anderson, Bourbon, Bracken, Estill, Fayette, Franklin, Garrard, Grant, Harrison, Henry, Jackson, Jessamine, Madison, Mercer, Nelson, Nicholas, Pendleton, Robertson, Scott, Shelby, Spencer, Washington, and Woodford. The full name of the applicant is the Blue Grass Energy Cooperative Corporation.
2. The post office address of the applicant is P. O. Box 990, Nicholasville, Kentucky 40340-0990 (807 KAR 5:001, Section 8(1).)

3. The Articles of Incorporation and all amendments thereto for Blue Grass Energy have previously been filed with the Commission in Case Number 2004-00374. (804 KAR 5:001, Section 8(3).)
4. A general description of Applicant's property in the field of its operation, together with the statement of the original cost of the property and the cost to the Applicant follows:

Blue Grass Energy Cooperative Corporation's property consists of approximately 4,680.0 miles of electric distribution line and other properties necessary and incidental to the operation of its system in the foregoing counties. The original cost of the Applicant's property as of November 30, 2012 is as follows: TOTAL UTILITY PLANT: \$159,120,650.00 (807 KAR 5:001, Section 11(1)(a).)
5. The Applicant states that no amount or kinds of stock are issued or outstanding. (807 KAR 5:001, Section 11(1)(b).)
6. The Applicant states that no preferred stock has been issued or is outstanding. (807 KAR 5:001, Section 11(1)(b).)
7. Exhibit #1 attached lists the outstanding Notes secured by Mortgages which have been executed by Blue Grass Energy as Mortgagor and delivered to the United States of America, the Federal Financing Bank, and the National Rural Utilities Cooperative Finance Corporation as Mortgagees as of the date of this Application. The outstanding balances on these Notes as of November 30, 2012 is as shown on Exhibit #1 attached hereto. (807 KAR 5:001, Section 6(6).)

8. The Applicant states that no bonds are authorized or issued for the Corporation. (807 KAR 5:001, Section 6(5).)
9. Blue Grass Energy has no other indebtedness, except current liabilities which accrue in the ordinary course of business and which are unsecured. (807 KAR 5:001, Section 6(7).)
10. No dividends have been paid by the Corporation. (807 KAR 5:001, Section 6(8).)
11. Blue Grass Energy has applied for a loan from the National Rural Utilities Cooperative Finance Corporation (hereafter "CFC") in the amount of \$1,200,000.00, to be used for the purposes set out herein, and Blue Grass Energy is requesting approval of the Commission of this loan. This loan will be secured by a mortgage and security instrument.
12. The use to be made of the proceeds from the loan from CFC is as follows: On or about June 2, 2005, Blue Grass Energy entered into a Energy Conservation Management Services contract with the United States of America through its US Army base at Richmond, Kentucky. A copy of this Contract was filed as Exhibit 2, Case No. 2006-00167. Pursuant to this ECMS Contract, Blue Grass Energy performs work or contracts for work to be performed on the Blue Grass Army Depot which results in energy savings to the United States Government through the updating of electrical equipment, lighting systems, heating and cooling systems and similar energy saving projects.  
  
Funds for this project will be paid by Blue Grass Energy from a CFC short-term line of credit. It is the intention of Blue Grass Energy to use the loan

proceeds from the CFC loan to reimburse the line of credit. (807 KAR 5:001, Section 11(1)(c).)

13. In regard to specific use of the loan funds that will be drawn down initially by Blue Grass Energy from CFC, the items that the loan funds will be used to reimburse payment for are illustrated on Exhibit #3 attached hereto. (807 KAR 5:001, Section 11(1)(e).)
14. In addition to the ECMS Contract which Blue Grass Energy has with the US Government, Blue Grass was also the successful bidder and obtained a “Privatization Contract” to maintain the electrical system at Richmond, Kentucky. However the project has been on hold since 2006 by the government. This information is provided only to further explain the relationship between Blue Grass Energy and the United States Government at its Richmond Army Base, since none of the funds from the loan from CFC will be utilized under the privatization contract.
15. Blue Grass Energy’s Income Statement for the twelve (12) month period ending November 30, 2012 is attached as Exhibit #4 and its Balance Sheet is attached as Exhibit #5. (807 KAR 5:001, Section 6(9).)
16. The Loan agreement for the \$1,200,000.00 from CFC to Blue Grass Energy is attached as Exhibit #6.
17. The Certificate of Resolution and Incumbency approving this loan by Blue Grass Energy’s Board of Directors is attached as Exhibit #7.

18. Copies of all Mortgages granted by Blue Grass Energy to Mortgagees have previously been filed with the Commission in Case No. 2004-00374 referred to. (807 KAR 5:001, Section 11(2)(b).)
19. The proposed Promissory Note from Blue Grass Energy to CFC is attached hereto as Exhibit #8.
20. Pursuant to the proposed Promissory Note, it is anticipated that Blue Grass Energy will utilize the variable interest rate that has been offered by CFC to make the Note repayment consistent with the terms of the ECMS Contract which also provides for a variable interest rate on the amounts that the U. S. Government is repaying to Blue Grass Energy over the ten (10) year term. The variable interest rate was selected because it does not include a prepayment penalty by CFC.
21. Blue Grass Energy states that the funding to be obtained is solely from CFC and not from the Rural Utilities Service or any other source, since RUS does not provide this type of financing for projects of the U. S. Government.
22. Since the provision for the services of Blue Grass Energy pursuant to the ECMS Contract are an extension of the “core business” of Blue Grass Energy and consistent with its Articles of Incorporation and the Amendments thereto relating to the purposes for which Blue Grass Energy was organized pursuant to the Rural Electrification Act, it is the opinion of Blue Grass Energy and its accountants that the income generated to Blue Grass Energy by this endeavor will not jeopardize Blue Grass Energy’s tax exempt status.

23. Blue Grass Energy has established an accounting system within its organization to provide separately for the income and expenses generated by the ECMS Contract, and there is no subsidization by Blue Grass Energy's members for the ECMS project. Blue Grass Energy accounts for the ECMS project by using separate account numbers under the Blue Grass Energy system of accounts. The projects are paid for by Blue Grass Energy upon completion and approval. Blue Grass Energy then bills the Blue Grass Army Depot monthly after the project is completed. The billings are booked as accounts receivable monthly with payments accounted for with separate entries for principal and interest received.


24. Blue Grass Energy requests that this Application be expedited so that the loan can be closed and the loan funds obtained as soon as possible.

25. Blue Grass Energy requests that the Commission E-Mail to Blue Grass Energy any future data requests at the following E-Mail address in order to further expedite the handling of this Application: [donalds@bgenergy.com](mailto:donalds@bgenergy.com).

WHEREFORE, Blue Grass Energy Cooperative Corporation respectfully requests that the Public Service Commission of the Commonwealth of Kentucky issue an Order authorizing and granting unto Blue Grass Energy Cooperative Corporation approval for a \$1,200,000.00 loan from the National Rural Utilities Cooperative Finance Corporation and all other relief to which the Applicant may be entitled.

Dated at Nicholasville, Kentucky this 20 day of February, 2013.


**BLUE GRASS ENERGY  
COOPERATIVE CORPORATION**

BY: 

**RALPH K. COMBS  
ATTORNEY FOR BLUE GRASS  
ENERGY COOPERATIVE  
CORPORATION  
100 UNITED DRIVE, SUITE 4B  
VERSAILLES, KY 40383  
(859) 873-5427**

I, **J. Donald Smothers**, Vice President, Financial Services of Blue Grass Energy Cooperative Corporation, state that I have read and understand the foregoing Application and that the statements contained therein are true.

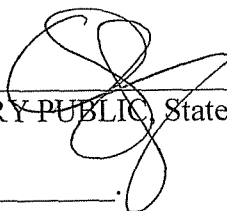
**BLUE GRASS ENERGY  
COOPERATIVE CORPORATION**

BY:   
**J. DONALD SMOTHERS, Vice  
President, Financial Services**

STATE OF KENTUCKY

COUNTY OF JESSAMINE

I, the undersigned, a Notary Public, do hereby certify that on this 20 day of February, 2013, personally appeared before me **J. DONALD SMOTHERS**, who being by me first duly sworn, subscribed to and acknowledged that he is the **Vice President, Financial Services of Blue Grass Energy Cooperative Corporation**, a Kentucky corporation, that he signed the foregoing document as **Vice President, Financial Services** of the corporation, and that the statements therein contained are true.

 405077  
NOTARY PUBLIC, State of Kentucky At Large

My commission expires: 9/18/13



## TABLE OF CONTENTS

1. List of Outstanding Notes and Outstanding Balances as of November 30, 2012.
2. Contract with Blue Grass Army Depot and Harshaw Trane.  
Filed as Exhibit #2 In Case No. 2006-00167.
3. Specific Use of Loan Funds.
4. Income Statement as of 11/30/12.
5. Balance Sheet as of 11/30/12.
6. Loan Agreement.
7. Certificate of Resolution and Incumbency.
8. Promissory Note.

**NOTES OUTSTANDING**  
**November 30, 2012**

|       | LOAN NO           | AMOUNT              |
|-------|-------------------|---------------------|
| RUS   | 1B280             | \$822,289           |
|       | 1B281             | \$277,261           |
|       | 1B285             | \$741,907           |
|       | 1B286             | \$338,963           |
|       | 1B520             | \$542,037           |
|       | 1B521             | \$365               |
|       | 1B525             | \$542,402           |
|       | 1B530             | \$3,957,354         |
|       | 1B531             | \$1,452,366         |
|       | 1B532             | \$2,039,693         |
|       | 1B870             | \$7,093,121         |
|       | 1B871             | \$4,498,993         |
|       | 1B872             | \$5,398,792         |
|       | 1B873             | \$4,520,146         |
|       | 1B874             | \$4,770,170         |
|       | 1B890             | \$11,195,514        |
|       | 1B891             | \$8,480,554         |
|       | 1B892             | \$5,618,919         |
|       | 1B893             | \$4,766,376         |
|       | 1B894             | \$4,842,528         |
|       | 1B895             | \$5,651,353         |
|       | Cushion of Credit | <u>-\$1,524,627</u> |
| TOTAL |                   | \$76,026,476        |

|     |         |             |
|-----|---------|-------------|
| CFC | 9006    | \$29,073    |
|     | 9007    | \$157,002   |
|     | 9008    | \$161,317   |
|     | 9009    | \$392,951   |
|     | 9010    | \$1,002,869 |
|     | 9011    | \$979,319   |
|     | 9016    | \$21,662    |
|     | 9017    | \$80,490    |
|     | 9018    | \$131,813   |
|     | 9019    | \$141,382   |
|     | 9020    | \$393,388   |
|     | 9021    | \$459,427   |
|     | 9030    | \$43,827    |
|     | 9031    | \$97,698    |
|     | 9032    | \$89,181    |
|     | 9033    | \$144,371   |
|     | 9034    | \$176,388   |
|     | 9035    | \$327,991   |
|     | 9036    | \$634,723   |
|     | 9037010 | \$554,159   |

**NOTES OUTSTANDING**  
**November 30, 2012**

|       |         |                  |
|-------|---------|------------------|
|       | 9037011 | \$1,094,587      |
|       | 9037012 | \$1,094,587      |
|       | 9037013 | \$1,094,587      |
|       | 9037014 | \$1,094,587      |
|       | 9037015 | \$1,094,587      |
|       | 9037025 | \$324,033        |
|       | 9037026 | \$273,647        |
|       | 9037027 | \$273,647        |
|       | 9037028 | \$273,647        |
|       | 9037029 | <u>\$273,647</u> |
| TOTAL |         | \$12,910,587     |

|       |       |                    |
|-------|-------|--------------------|
| FFB   | H0010 | \$3,288,961        |
|       | H0015 | \$1,644,481        |
|       | H0020 | \$3,711,549        |
|       | H0025 | \$711,443          |
|       | H0030 | \$640,299          |
|       | H0035 | \$716,243          |
|       | H0040 | \$1,167,950        |
|       | H0045 | \$1,257,440        |
|       | H0050 | \$1,482,773        |
|       | H0055 | \$2,433,339        |
|       | H0060 | \$3,778,417        |
|       | H0065 | \$3,856,608        |
|       | H0070 | \$2,242,653        |
|       | H0075 | <u>\$2,845,702</u> |
| TOTAL |       | \$29,777,858       |

TOTAL \$118,714,921

Exhibit 3

Page 1 of 11

The loan funds will go to reimburse NRUCFC short term line of credit. Attached is a list of the project proposals that will be covered by the loan.

Bluegrass Army Depot  
DSM Project ECO #12-01

Proposal for S-1, S-2 & S-3

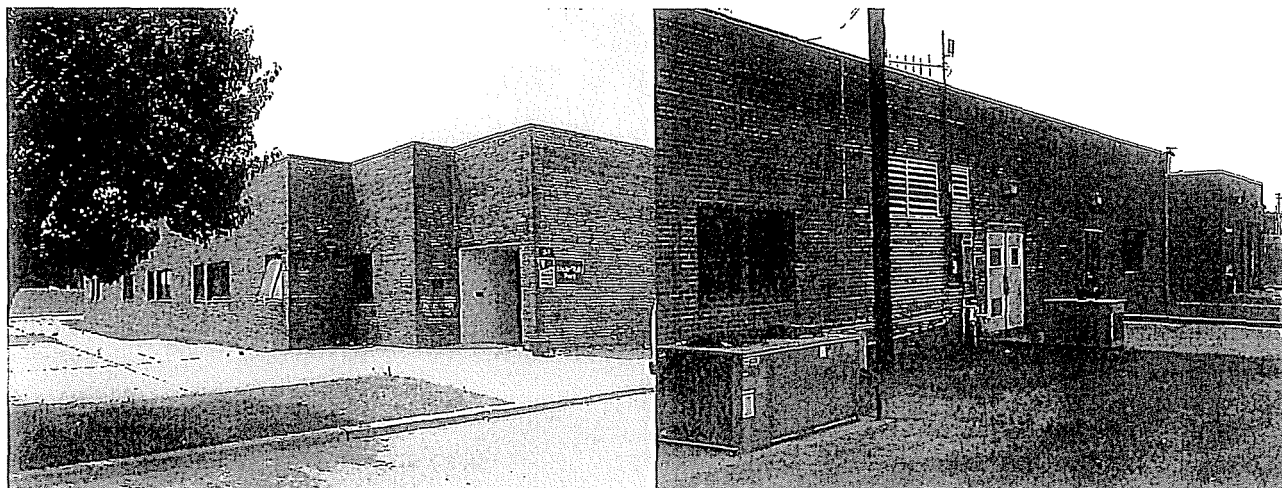
Submitted by:



June 27, 2012



## Building S-1 Energy Conservation Measures (ECMs)

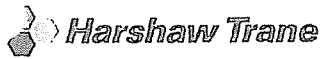


### Building Data:

|                                 |   |
|---------------------------------|---|
| <b>Facility Size:</b>           | 6,633 ft <sup>2</sup>   |
| <b>Roof Type:</b>               | Built-up black rubber roof with 4" rigid insulation over steel structure (age estimated to be 30 years, thermal resistance estimated to be R16) |
| <b>Wall Type:</b>               | Block & Brick, 1"-1.5" rigid insulation (R4-R6)   |
| <b>Window Type:</b>             | Double-pane, aluminum (age estimated to be 30 years, thermal resistance estimated to be R1-1.5)   |
| <b>Building Occupancy:</b>      | Avg. Occupancy 25   |
| <b>Building Schedule:</b>       | 0730-1700 (M-Th), but mostly 0800-1600 (M-Th)   |
| <b>Building Cooling Load:</b>   | 21.4 Tons (existing system capacity)  |
| <b>Lighting:</b>                | T12 Lighting fixtures with mixture of electronic and magnetic ballasts  |
| <b>Existing Equip. Vintage:</b> | 11/1981 (AHU, VAV boxes, controls), 06/2002 (condensing unit [CU])  |

**Building Use:** General Medical Office, Health Clinic, & Ambulatory

**Existing HVAC:** This facility serves as a health clinic and is conditioned by a variable air volume (VAV) system. An inefficient non-condensing Peerless boiler (older, unknown vintage) provides hot water year-round to both the preheat coil in the 31-year-old Trane air handling unit (AHU) and to 31-year-old reheat coils in terminal VAV boxes located throughout the facility. The air handler provides cooling from its roughly 10-year-old Carrier direct expansion (DX) condensing unit (CU) with inefficient reciprocating compressor, poorly insulated line sets, and debris/hail damage clogging the airflow through the condensing coil (Fig. 1). All equipment and controls are near/past ASHRAE expected life spans for economic feasibility, especially considering the current state of maintenance. All unit controls are pneumatic, a very inefficient controls system that requires energy-intense air compression to operate, particularly energy consuming when pneumatic leaks exist, as the compressor is forced into more frequent/extended operation. The poor long-term accuracy of this control system, due to line aging / pressure cycling failures also has a detrimental effect on comfort control and efficiency as it leads to large temperature swings and simultaneous heating/cooling. Many pneumatic/mechanical connections were confirmed to be broken (Fig. 2) including that of the inlet guide vane motor that, when properly operating, varies air flow to the terminal boxes to reduce energy



consumption. The inlet guide vanes are now permanently set open, increasing energy usage (Fig. 3). Gas consumption is submetered through a Honeywell control system. Electric consumption is not submetered.

**Existing DHW:** The current domestic hot water system will remain.

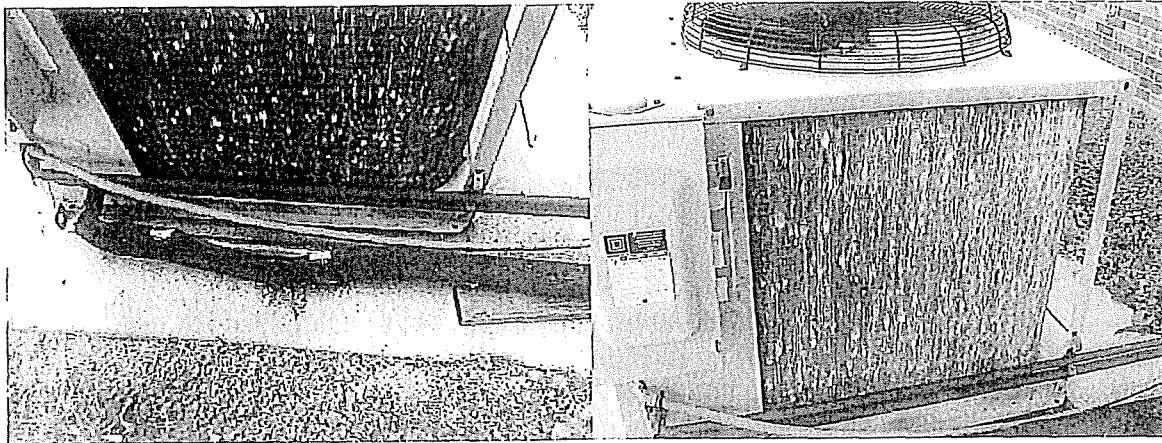


Fig. 1. 10-year-old Carrier condensing unit showing poorly insulated line sets and debris/hail damage clogging the airflow through the condensing coil.

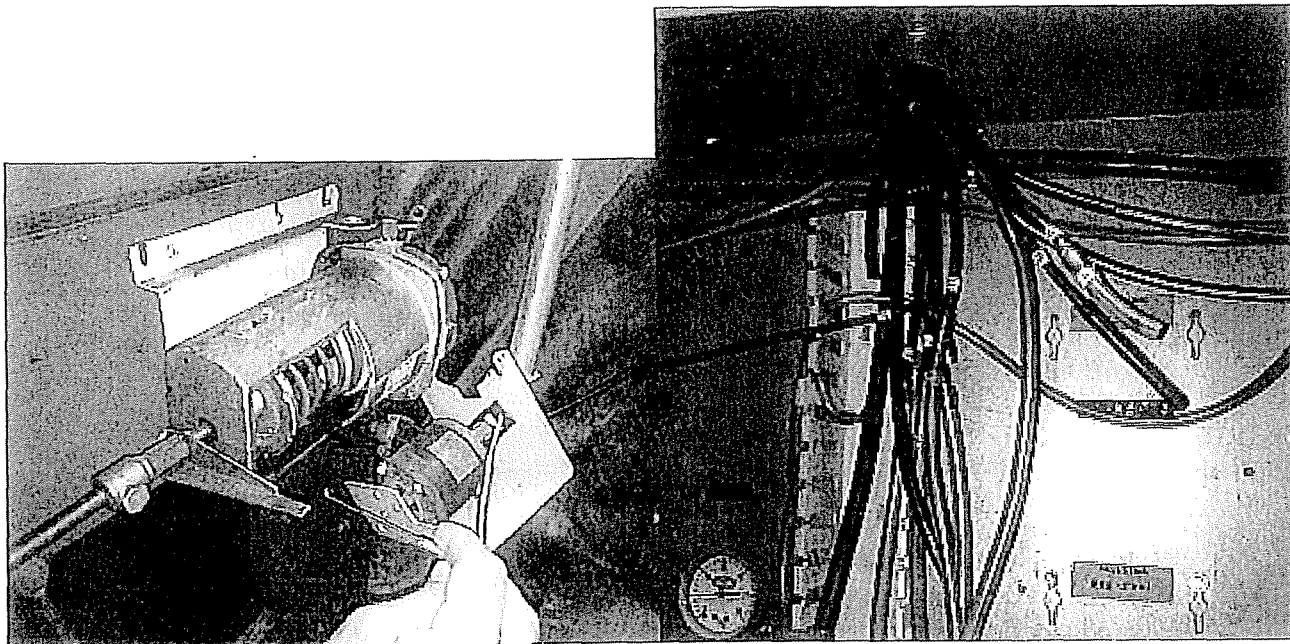


Fig. 2. Broken mechanical connection (left) to inlet guide vane actuator. Right, pneumatic connections fail over time from pressure cycling and line deterioration and are often manually disconnected as a response to improper maintenance (easily out-of-sight, out-of-mind).

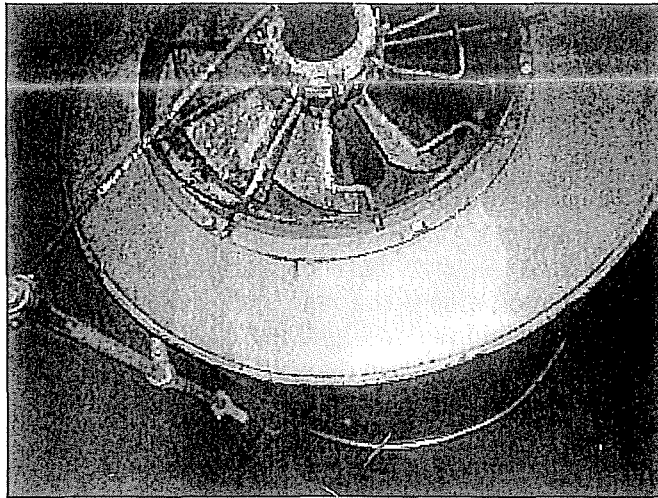
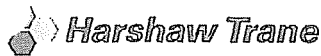


Fig. 3. Inlet guide vanes on the fan inlet are fixed in open position as a response to poor pneumatic controls operation (very common flaw in such systems). This forces the fan to consume more energy to move the air when it is unnecessary, and in turn, the excess volume of air must be pre-cooled and reheated at the terminal boxes, further wasting energy.

Issues:

1. Building comfort and temperature control for sensitive areas
    - Current mechanical system is in a deteriorated state
      - Causing significant comfort issues.
      - Significant air leakage and excess air movement and unnecessary air tempering – pneumatics not connected or controlling VAV boxes or inlet guide vanes (IGV) at the air handler.
      - Valves and actuators are past their life.
      - Energy inefficient system design and operation.
      - Main equipment (AHU, CU, boiler) at the end of its economically useful life.
    - Limited controls on system
      - Occupant discomfort and expensive laboratory operational costs due to large temperature swings and poor control.
      - Good energy saving capabilities with more efficient equipment, lighting, controls, load reduction, and maintenance.
  2. Roof at end of useful life
    - No current complications or issues, but impending issues are likely based on history of leaks.
    - Existing roof is insulated to inefficient values by modern standards.
- Windows nearing end of useful life
- Low R-Value
  - Weathering and aging of seals.
4. Lighting is outdated, less-efficient T12 with mixture of magnetic and electronic ballasts.





## System Opportunities / Proposed ECMs

### Possible Energy Conservation Measures (ECMs):

1. Centralized Geothermal with Ground Heat Sink – Replace the existing HVAC system with a high efficiency “centralized” geothermal heat pump (GHP) / VAV system. A geothermal field would be installed behind Bldg. S1 or S2. A centralized water-to-water heat pump plant will be located in the mechanical room in place of the boiler. This will create both chilled water for the new air-handler and hot water for all pre- and re-heating. The centralized design is slightly more efficient than a traditional geothermal design and is much more cost effective. It will allow for the existing VAV ductwork to remain and also takes advantage of the combined maintenance benefits of a VAV system (no compressors/fans in zone) and the maintenance benefits of the geothermal heat pump system (no short-life condensing units exposed to the environment). This centralized design is also more cost effective than traditional geothermal design as it allows for a single plant combining a heating/cooling water-to-water heat pump that can be designed with extra redundancy if desired.
2. Centralized Geothermal with Lake Heat Sink – Replace the existing HVAC system with a high efficiency *centralized* geothermal heat pump (GHP) / VAV system. *Same as option 1, except a geothermal heat exchanger would be placed in the lake behind Bldg. S2 versus the geothermal bore field behind S1 or S2. All other aspects remain the same as option 1.*
3. Air Source Heat Pump – As an alternative to options 1 and 2, an air-source heat pump split system would take the place of the existing air handler and condensing unit.

*Note: Common to all three alternatives above, these designs will utilize existing zoning, while attempting to reuse existing return and supply ductwork to reduce first costs, improve simple payback of project, and reduce disturbance to the clinical areas.*

4. Controls – The new system will be controlled by a modern direct digital control (DDC) system with Trane Tracer Summit™ building automation for system control, monitoring, and scheduling. Trane Intelligent Services will be used for performance tracking and energy reporting. All pneumatic valves on VAV boxes will be replaced with DDC-capable electro-mechanical valves. Existing natural gas submetering tie-in / new electric submetering will allow for continuous building commissioning and proper baselining of energy consumption and demand. This will basically enable the facility manager to track the building’s complete energy performance year-over-year and provide flags for corrective action to be taken. Currently, only the gas data is submetered (field verified), and results of that data are not completely utilized to their full potential without the proper interface.
5. Preventative Maintenance and Energy Sustainment Program – Scheduled coil cleaning, filtration, system charge adjustment, control verification, general system inspection can prevent more costly repairs down the road by catching problems before they escalate. Preventative maintenance will also allow the equipment to better sustain the initial efficiency and asset life.

6. Roof Upgrade – Possibilities of additional foam insulation applied to the roof for improved seal and thermal resistance will be investigated. Possible alternative for a white single-ply membrane roof (Fig. 4) (superior to traditional EPDM and even PVC with regards to durability) will also be weighed. The reduced thermal load created by the improved roof could be partially funded by the lower plant capacity subsequently required for the GHP/VAV system.

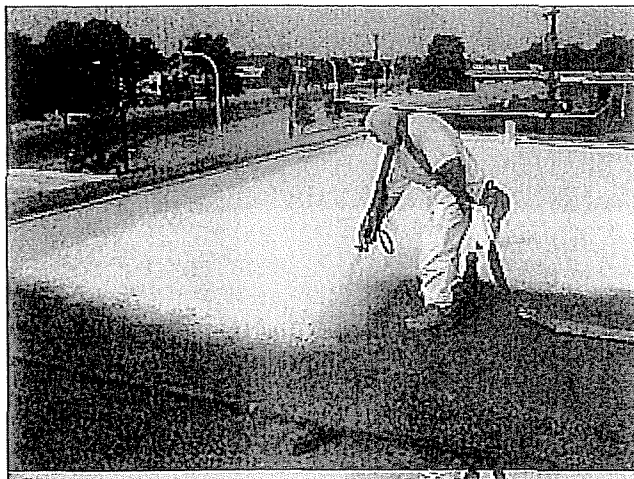
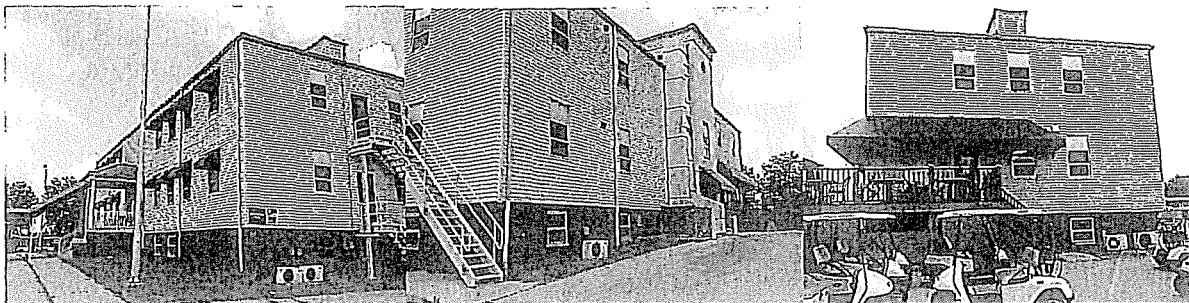


Fig. 4. Example of a white spray foam roof application.  
The high reflectivity contributes to much lower solar heat gain through the roof.

7. New T8 lighting with efficient electronic ballasts is recommended as it is considerably more efficient than the existing T12 electronic/magnetic mix that exists.

## Building S-2 Energy Conservation Measures (ECMs)



### Building Data:

|                                 |  |
|---------------------------------|--|
| <b>Facility Size:</b>           | 10,920 ft <sup>2</sup> (including basement)  |
| <b>Roof Type:</b>               | R-Value to be confirmed  |
| <b>Wall Type:</b>               | R-Value to be confirmed  |
| <b>Building Occupancy:</b>      | Info requested   |
| <b>Building Schedule:</b>       | To be confirmed (extended hours due to golf pro shop)  |
| <b>Building Cooling Load:</b>   | ~ 26 Tons including basement mini-splits   |
| <b>Existing Equip. Vintage:</b> | 07/1997 (1 <sup>st</sup> Floor packaged unit), 10/2007 (2 <sup>nd</sup> Floor packaged unit) |

**Building Use:** General Office, Conference Rooms, Recreation Rooms & Golf Pro Shop

**Existing HVAC:** This building is a two-story with a basement and is used for recreation space and conference rooms. There is some space available as general office. The attic space is only used for the HVAC system where ductwork delivers conditioned air primarily to the 2<sup>nd</sup> floor. The basement is heated by the air provided by air handling unit #1 (AHU-1). The basement is cooled by several ductless mini-splits (Fig. 5) and partially by AHU-1. The 1<sup>st</sup> and 2<sup>nd</sup> floor packaged units (AHU-1 and AHU-2, respectively) are gas heat/dx cool and located on the ground at either end of the building. The 15-year-old AHU-1 is inefficient as it has a partially clogged condenser coil (Fig. 6) and a dangerously over-worked compressor as the condenser system was not operating. This unit has also reached the end of its ASHRAE economically useful life. The 5-year-old AHU-2 has a completely clogged outside air intake (Fig. 6) and has duct heat losses/gains from the long exposed supply and return ducts. The 2<sup>nd</sup> floor also contains fan coils that appear not to be in use and more verification is needed. Gas consumption is submetered through a Honeywell control system. Electric consumption is not submetered.

**Existing DHW:** Traditional gas water heater is possibly nearing end of useful life. Replacement may be recommended.

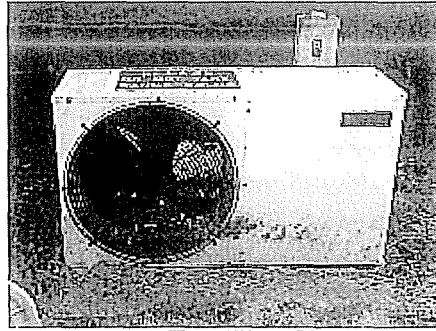


Fig 5. Typical ductless mini-split condensing unit – Discharging grass clippings toward outdoor dx coils should be prevented to maintain a healthy air flow and high efficiency.

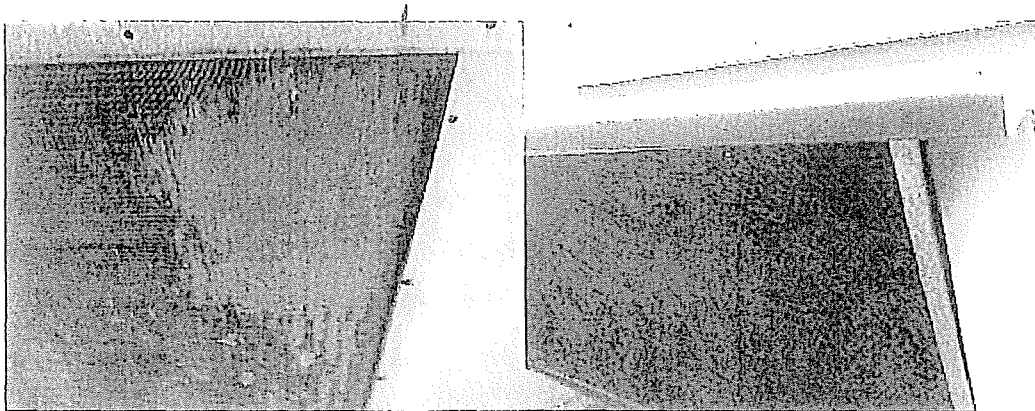
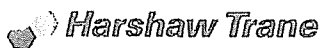


Fig 6. Left: Intake of packaged unit serving the 1<sup>st</sup> floor is partially clogged. Right: Intake of packaged unit serving the 2<sup>nd</sup> floor is fully clogged. A maintenance solution would be advisable.

**Issues:**

1. Comfort and humidity issues
  - The current systems are experiencing functionality issues that cause comfort and humidity issues. /
2. Premature unit failure
  - Condenser coil blockages
  - Condenser fan failures
  - Impending compressor failures due to high head pressures
  - Condition of controls, contactors and high pressure limits would have complications related to the deferred maintenance.
3. Limited controls on system
  - Limited energy saving capabilities
  - Limited visibility of performance issues – out-of-sight, out-of-mind
4. Lighting is outdated, with less-efficient T12 bulbs.



## System Opportunities / Proposed ECMs

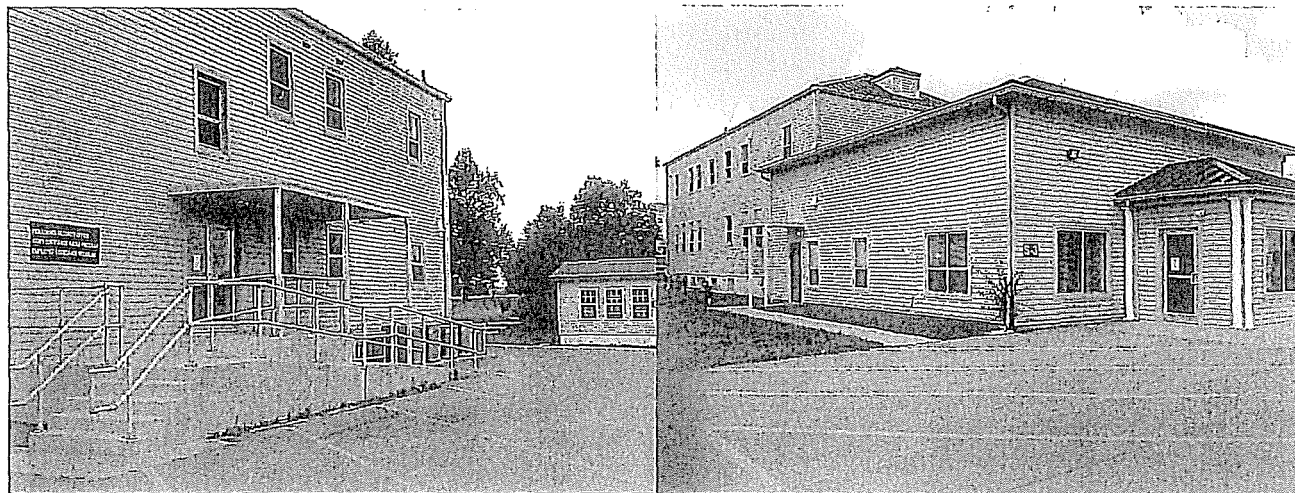
### Possible Energy Conservation Measures (ECMs):

1. Centralized Geothermal with Ground Heat Sink – Replace the existing HVAC system with a high efficiency “centralized” geothermal heat pump (GHP) system. A geothermal field would be installed behind Bldg S1 or S2. A centralized water-to-water heat pump plant will be located in the mechanical room. This will create both chilled water and hot water for the new blower coils and existing fan coils. AHU-1 will be replaced with a new blower coil unit in the basement or may be placed in the existing location outside under the deck if glycol is used in the system (note that glycol will reduce the efficiency and increase maintenance expense). AHU-2 will be replaced by a new blower coil located in the attic. The basement will be completely served by AHU-1, and the ductless mini splits will be removed. Centralized geothermal would be the most efficient option. It would also take advantage of the diversity of a shared well field and allow reuse of the existing fan coils that appear to be in good condition.
2. Traditional Water-Source Heat Pump with Ground Heat Sink – Horizontal units would be placed in the attic serving the 2<sup>nd</sup> floor. The 1<sup>st</sup> floor (and basement, if cooling is needed in basement – which needs to be determined) would be served one of a few options:
  - a. Vertical units located in the basement
  - b. Hi-rise units located directly in the room being served
  - c. Horizontal units located above lowered ceilings
3. Geothermal with Lake Heat Sink – Replace the existing HVAC system with a high efficiency geothermal heat pump (GHP) system. *Same as options 1 or 2, except a geothermal heat exchanger would be placed in the lake behind Bldg. S2 versus the geothermal bore field behind S1 or S2. All other aspects remain the same as options 1 or 2.*
4. AHU-1 replacement – As an alternative to options 1 and 2, AHU-1 may simply be replaced with an air source heat pump packaged unit with gas backup, and AHU-2 would be rejuvenated extending the life of the unit and making function as new.

Note: Common to alternatives 1, 3, and 4, these designs will utilize existing zoning, while attempting to reuse existing return and supply ductwork to reduce first costs, improve simple payback of project, and reduce disturbance to the clinical areas.

5. Controls – The new system will be controlled by a modern direct digital control (DDC) system with Trane Tracer Summit™ building automation for system control, monitoring, and scheduling. Trane Intelligent Services will be used for performance tracking and energy reporting. Existing natural gas submetering tie-in and new electric submetering will allow for continuous building commissioning and proper baselining of energy consumption and demand. This will basically enable the facility manager to track the building’s complete energy performance year-over-year and provide flags for corrective action to be taken. Currently, only the gas data is submetered and results of that data are not completely utilized to their full potential without the proper interface.
6. Preventative Maintenance and Energy Sustainment Program – Scheduled coil cleaning, filtration, system charge adjustment, control verification, general system inspection can prevent more costly repairs down the road by catching problems before they escalate. Preventative maintenance will also allow the equipment to better sustain the initial efficiency and asset life.
7. New T8 lighting with efficient electronic ballasts as needed are recommended.

## Building S-3 Energy Conservation Measures (ECMs)



### Building Data:

**Facility Size:** 9,250 ft<sup>2</sup>  
**Occupancy:** 25-45 People  
**Building Schedule:** 0700-1600 (M-F) – Standard Office with some after hours  
**Building Cooling Load:** 20 Tons  
**Existing Equip. Vintage:** 11/2008 (all)

**Building Use:** General Office

**Existing HVAC:** The five Trane condensing units serving this building are 4 years old. One of the five condensing units has erratic condenser cycling. All five systems appear well-controlled by simple programmable thermostats. Gas consumption is submetered through a Honeywell control system. Electric consumption is not submetered. Existing lighting is outdated and less efficient T12.

**Existing DHW:** The current domestic hot water system will remain.

### System Opportunities / Proposed ECMs

#### Possible Energy Conservation Measures (ECMs):

- Preventative Maintenance and Energy Sustainment Program – Scheduled coil cleaning, filtration, system charge adjustment, control verification, and general system inspection can prevent more costly repairs down the road by catching problems before they escalate. Preventative maintenance will also allow the equipment to better sustain the initial efficiency and asset life.
- Install electric submetering, tie-in to gas submetering and verify accuracy.
- Upgrade the needed lighting to more efficient electronic T8 light fixtures.

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0032. The time required to complete this information collection is estimated to average 16 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

|  |                                   |
|--|-----------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE<br>RURAL UTILITIES SERVICE   | BORROWER DESIGNATION<br>KY 064    |
| FINANCIAL AND STATISTICAL REPORT   | PERIOD ENDED<br>NOVEMBER 30, 2012 |
| INSTRUCTIONS - For detailed instructions, see RUS Bulletin 1717B-2.  | BORROWER NAME                     |
| <i>This data will be used by RUS to review your financial situation. Your response is required ( 7 U.S.C. 901 et. seq.) and may be confidential.</i> | BLUE GRASS ENERGY                 |

**CERTIFICATION**

We recognize that statements contained herein concern a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious or fraudulent statement may render the maker subject to prosecution under Title 18, United States Code Section 1001.

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

**ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES**

**DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1718 OF 7 CFR CHAPTER XVII**  
*(check one of the following)*

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in Part D of this report.

\_\_\_\_\_  
DATE

**PART A. STATEMENT OF OPERATIONS**

| ITEM   | YEAR-TO-DATE     |                  |               | THIS MONTH<br>(d) |
|--|------------------|------------------|---------------|-------------------|
|  | LAST YEAR<br>(a) | THIS YEAR<br>(b) | BUDGET<br>(c) |                   |
| 1. Operating Revenue and Patronage Capital             |                  | 116,967,588      |               |                   |
| 2. Power Production Expense                            |                  |                  |               |                   |
| 3. Cost of Purchased Power                             |                  | 87,249,939       |               |                   |
| 4. Transmission Expense                                |                  |                  |               |                   |
| 5. Distribution Expense - Operation                    |                  | 2,548,760        |               |                   |
| 6. Distribution Expense - Maintenance                  |                  | 6,249,425        |               |                   |
| 7. Customer Accounts Expense                           |                  | 2,816,334        |               |                   |
| 8. Customer Service and Informational Expense          |                  | 1,449,961        |               |                   |
| 9. Sales Expense                                       |                  |                  |               |                   |
| 10. Administrative and General Expense                 |                  | 4,437,546        |               |                   |
| 11. Total Operation & Maintenance Expense (2 thru 10)  |                  | 104,751,965      |               |                   |
| 12. Depreciation and Amortization Expense              |                  | 8,064,044        |               |                   |
| 13. Tax Expense - Property & Gross Receipts            |                  |                  |               |                   |
| 14. Tax Expense - Other                                |                  | 48,796           |               |                   |
| 15. Interest on Long-Term Debt                         |                  | 4,444,118        |               |                   |
| 16. Interest Charged to Construction - Credit          |                  |                  |               |                   |
| 17. Interest Expense - Other                           |                  | 67,718           |               |                   |
| 18. Other Deductions                                   |                  | 26,563           |               |                   |
| 19. Total Cost of Electric Service (11 thru 18)        |                  | 117,403,204      |               |                   |
| 20. Patronage Capital & Operating Margins (1 minus 19) |                  | (435,616)        |               |                   |
| 21. Non Operating Margins - Interest                   |                  | 291,001          |               |                   |
| 22. Allowance for Funds Used During Construction       |                  |                  |               |                   |
| 23. Income (Loss) from Equity Investments              |                  |                  |               |                   |
| 24. Non Operating Margins - Other                      |                  | 255,198          |               |                   |
| 25. Generation and Transmission Capital Credits        |                  | 6,129,391        |               |                   |
| Other Capital Credits and Patronage Dividends          |                  | 158,340          |               |                   |
| 27. Extraordinary Items                                |                  |                  |               |                   |
| 28. Patronage Capital or Margins (20 thru 27)          |                  | 6,398,314        |               |                   |

EXHIBIT 5  
PAGE 1 OF 1

PART C. BALANCE SHEET

| LINE NO | ASSETS AND OTHER DEBITS                       | LIABILITIES AND OTHER CREDITS                       |
|---------|---|---|
| 1.0     | TOTAL UTILITY PLANT IN SERVICE 212,182,693.83 | 30.0 MEMBERSHIPS 1,039,405.30-                      |
| 2.0     | CONSTRUCTION WORK IN PROGRESS 2,406,704.33    | 31.0 PATRONAGE CAPITAL 67,926,789.83-               |
| 3.0     | TOTAL UTILITY PLANT 214,589,398.16            | 32.0 OPERATING MARGINS - PRIOR YEAR 96,485.32-      |
| 4.0     | ACCUM PROV FOR DEP & AMORT 60,704,749.92-     | 33.0 OPERATING MARGINS-CURRENT YEAR 693,319.13-     |
| 5.0     | NET UTILITY PLANT 153,884,648.24              | 34.0 NON-OPERATING MARGINS 62,513.47-               |
|         |   | 35.0 OTHER MARGINS & EQUITIES 2,382,853.42-         |
| 6.0     | NON-UTILITY PROPERTY (NET) .00                | 36.0 TOTAL MARGINS & EQUITIES 72,201,366.47-        |
| 7.0     | INVEST IN SUBSIDIARY COMPANIES .00            |   |
| 8.0     | INV IN ASSOC ORG - PAT CAPITAL 33,991,500.25  | 37.0 LONG TERM DEBT - RUS (NET) 76,026,475.94-      |
| 9.0     | INV IN ASSOC ORG OTHR GEN FND .00             | (PAYMENTS-UNAPPLIED .00 )                           |
| 10.0    | INV IN ASSOC ORG - NON GEN FND 2,217,835.99   | 38.0 LNG-TERM DEBT-FFB-RUS GUAR 29,777,858.28-      |
| 11.0    | INV IN ECON DEVEL PROJECTS .00                | 39.0 LONG-TERM DEBT OTHER-RUS GUAR .00              |
| 12.0    | OTHER INVESTMENTS .00                         | 40.0 LONG TERM DEBT - OTHER (NET) 12,910,586.65-    |
| 13.0    | SPECIAL FUNDS .00                             | 41.0 LNG-TERM DEBT-RUS-ECON DEV NET .00             |
| 14.0    | TOT OTHER PROP & INVESTMENTS 36,209,336.24    | 42.0 PAYMENTS - UNAPPLIED .00                       |
|         |   | 43.0 TOTAL LONG TERM DEBT 118,714,920.87-           |
| 15.0    | CASH - GENERAL FUNDS 1,196,509.65             |   |
| 16.0    | CASH - CONSTRUCTION FUND TRUST .00            | 44.0 OBLIGATION UNDER CAPITAL LEASE .00             |
| 17.0    | SPECIAL DEPOSITS .00                          | 45.0 ACCUM OPERATING PROVISIONS 7,580,067.68-       |
| 18.0    | TEMPORARY INVESTMENTS 7,100,000.00            | 46.0 TOTAL OTHER NONCURR LIABILITY 7,580,067.68-    |
| 19.0    | NOTES RECEIVABLE (NET) .00                    |   |
| 20.0    | ACCTS RECV - SALES ENERGY (NET) 10,174,126.67 | 47.0 NOTES PAYABLE .00                              |
| 21.0    | ACCTS.RECV - OTHER (NET) 1,486,720.61         | 48.0 ACCOUNTS PAYABLE 9,855,873.18-                 |
| 22.0    | RENEWABLE ENERGY CREDITS .00                  | 49.0 CONSUMER DEPOSITS 1,904,701.05-                |
| 23.0    | MATERIAL & SUPPLIES-ELEC & OTH 1,396,593.06   | 50.0 CURR MATURITIES LONG-TERM DEBT .00             |
| 24.0    | PREPAYMENTS 369,030.47                        | 51.0 CURR MATURIT LT DEBT ECON DEV .00              |
| 25.0    | OTHER CURRENT & ACCR ASSETS .00               | 52.0 CURR MATURITIES CAPITAL LEASES .00             |
| 26.0    | TOTAL CURRENT & ACCR ASSETS 21,722,980.46     | 53.0 OTHER CURRENT & ACCRUED LIAB 1,058,683.81-     |
|         |   | 54.0 TOTAL CURRENT & ACCRUED LIAB 12,819,258.04-    |
| 27.0    | REGULATORY ASSETS .00                         |   |
| 28.0    | OTHER DEFERRED DEBITS 116,376.32              | 55.0 REGULATORY LIABILITIES .00                     |
|         |   | 56.0 OTHER DEFERRED CREDITS 617,728.20-             |
| 29.0    | TOTAL ASSETS & OTHER DEBITS 211,933,341.26    | 57.0 TOTAL LIABILITIES & OTH CREDIT 211,933,341.26- |

| ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION |  |
|--|--|
| 58.0   | BALANCE BEGINNING OF YEAR .00                  |
| 59.0   | AMOUNT RECEIVED THIS YEAR (NET) 292,290.03     |
| 60.0   | TOTAL CONTRIBUTIONS IN AID OF CONST 292,290.03 |

C E R T I F I C A T I O N

WE HEREBY CERTIFY THAT THE ENTRIES IN THIS REPORT ARE IN ACCORDANCE WITH THE ACCOUNTS AND OTHER RECORDS OF THE SYSTEM AND REFLECT THE STATUS OF THE SYSTEM TO THE BEST OF OUR KNOWLEDGE AND BELIEF.  
ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, REA, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

\_\_\_\_\_  
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

\_\_\_\_\_  
DATE

\_\_\_\_\_  
SIGNATURE OF MANAGER

\_\_\_\_\_  
DATE



## LOAN AGREEMENT

LOAN AGREEMENT (this "Agreement") dated as of February 14, 2013, between BLUE GRASS ENERGY COOPERATIVE CORPORATION ("Borrower"), a corporation organized and existing under the laws of the State of Kentucky and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC"), a cooperative association organized and existing under the laws of the District of Columbia.

### RECITALS

**WHEREAS**, the Borrower has applied to CFC for a loan for the purposes set forth in Schedule 1 hereto, and CFC is willing to make such a loan to the Borrower on the terms and conditions stated herein; and

**WHEREAS**, the Borrower has agreed to execute one or more secured promissory notes to evidence an indebtedness in the aggregate principal amount of the CFC Commitment (as hereinafter defined).

**NOW, THEREFORE**, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree and bind themselves as follows:

### ARTICLE I

#### DEFINITIONS

**Section 1.01** For purposes of this Agreement, the following capitalized terms shall have the following meanings (such definitions to be equally applicable to the singular and the plural form thereof). Capitalized terms that are not defined herein shall have the meanings as set forth in the Mortgage.

**"Accounting Requirements"** shall mean any system of accounts prescribed by a federal regulatory authority having jurisdiction over the Borrower (including but not limited to that prescribed by the financial and statistical report required by RUS, commonly known as the "RUS Form 7"), or in the absence thereof, the requirements of GAAP applicable to businesses similar to that of the Borrower.

**"Advance"** shall mean each advance of funds by CFC to the Borrower pursuant to the terms and conditions of this Agreement.

**"Amortization Basis Date"** shall mean the first calendar day of the month following the end of the Billing Cycle in which the Advance occurs, provided, however, that if the Advance is made on the first day of a Billing Cycle, and such day is a Business Day, then the Amortization Basis Date shall be the date of the Advance.

**"Average DSC Ratio"** shall mean the average of the Borrower's two highest annual DSC Ratios during the most recent three calendar years.

**"Billing Cycle"** shall mean any 3-month period ending on, and including, a Payment Date.

**“Business Day”** shall mean any day that both CFC and the depository institution CFC utilizes for funds transfers hereunder are open for business.

**“CFC Commitment”** shall have the meaning ascribed to it in Schedule 1.

**“CFC Fixed Rate”** shall mean (i) such fixed rate as is then available for loans similarly classified pursuant to CFC's policies and procedures then in effect, or (ii) such other fixed rate as may be agreed to by the parties and reflected on the written requisition for funds in the form attached as Exhibit A hereto.

**“CFC Fixed Rate Term”** shall mean the specific period of time that a CFC Fixed Rate is in effect for an Advance.

**“CFC Variable Rate”** shall mean (i) the rate established by CFC for variable interest rate long-term loans similarly classified pursuant to the long-term loan programs established by CFC from time to time, or (ii) such other variable rate as may be agreed to by the parties on the written requisition for funds in the form attached as Exhibit A hereto.

**“CREB Provisions”** shall mean the specific covenants relating to funds requisition, tax status of the CREBs and completion and termination certificates contained in any loan agreements related to a clean renewable energy project of the Borrower funded by proceeds of one or more series of clean renewable energy bonds issued by CFC.

**“Capital Certificate”** shall mean a certificate, or book entry form of account, evidencing the Borrower's purchase of subordinated debt instruments issued by CFC from time to time. Such instruments may be denoted by CFC as “Loan Capital Term Certificates”, “Member Capital Securities”, “Subordinated Term Certificates”, or other like designations.

**“Conversion Request”** shall mean a written request to CFC from any duly authorized officer or other employee of the Borrower requesting an interest rate conversion available pursuant to the terms of this Agreement.

**“Debt Service Coverage (“DSC”) Ratio”** shall mean the ratio determined as follows: for any calendar year add (i) Operating Margins, (ii) Non-Operating Margins--Interest, (iii) Interest Expense, (iv) Depreciation and Amortization Expense, and (v) cash received in respect of generation and transmission and other capital credits, and divide the sum so obtained by the sum of all payments of Principal and Interest Expense required to be made during such calendar year; provided, however, that in the event that any amount of Long-Term Debt has been refinanced during such year, the payments of Principal and Interest Expense required to be made during such year on account of such refinanced amount of Long-Term Debt shall be based (in lieu of actual payments required to be made on such refinanced amount of Long-Term Debt) upon the larger of (i) an annualization of the payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding or (ii) the payment of Principal and Interest Expense required to be made during the following year on account of such refinancing debt.

**“Default Rate”** shall mean a rate per annum equal to the interest rate in effect for an Advance plus two hundred basis points.

**"Depreciation and Amortization Expense"** shall mean an amount constituting the depreciation and amortization of the Borrower computed pursuant to Accounting Requirements.

**"Distributions"** shall mean, with respect to the Borrower, any dividend, patronage refund, patronage capital retirement or cash distribution to its members, or consumers (including but not limited to any general cancellation or abatement of charges for electric energy or services furnished by the Borrower). The term "Distribution" shall *not* include (a) a distribution by the Borrower to the estate of a deceased patron, (b) repayment by the Borrower of a membership fee upon termination of a membership, or (c) any rebate to a patron resulting from a cost abatement received by the Borrower, such as a reduction of wholesale power cost previously incurred.

**"Draw Period"** shall have the meaning ascribed to it in Schedule 1 hereto.

**"Environmental Laws"** shall mean all laws, rules and regulations promulgated by any Governmental Authority, with which the Borrower is required to comply, regarding the use, treatment, discharge, storage, management, handling, manufacture, generation, processing, recycling, distribution, transport, release of or exposure to any Hazardous Material.

**"Equity"** shall mean the aggregate of the Borrower's equities and margins computed pursuant to Accounting Requirements.

**"Event of Default"** shall have the meaning as described in Article VI hereof.

**"GAAP"** shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board.

**"Governmental Authority"** shall mean the government of the United States of America, any other nation or government, any state or other political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

**"Hazardous Material"** shall mean any (a) petroleum or petroleum products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls, lead and radon gas, and (b) any other substance designated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

**"Interest Expense"** shall mean an amount constituting the interest expense with respect to Long-Term Debt of the Borrower computed pursuant to Accounting Requirements. In computing Interest Expense, there shall be added, to the extent not otherwise included, an amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Borrower over 2% of the Borrower's Equity.

**"Interest Rate Reset Date"** shall mean, with respect to any Advance, the first day following the expiration of the CFC Fixed Rate Term for such Advance.

**"LCTC Purchase Provisions"** shall mean the specific conditions and covenants in any Prior Loan Document requiring the Borrower to purchase subordinated debt instruments issued

by CFC that may be referred to in Prior Loan Documents as "LCTCs", "Loan Capital Term Certificates", "Capital Certificates", "Equity Certificates", "Subordinated Term Certificates" or instruments with other like designations.

**"Lien"** shall mean any statutory or common law consensual or non-consensual mortgage, pledge, security interest, encumbrance, lien, right of set off, claim or charge of any kind, including, without limitation, any conditional sale or other title retention transaction, any lease transaction in the nature thereof and any secured transaction under the Uniform Commercial Code.

**"Loan Documents"** shall mean this Agreement, the Note, the Mortgage and all other documents or instruments executed, delivered or executed and delivered by the Borrower and evidencing, securing, governing or otherwise pertaining to the loan made by CFC to the Borrower pursuant to this Agreement.

**"Long-Term Debt"** shall mean an amount constituting the long-term debt of the Borrower computed pursuant to Accounting Requirements.

**"Make-Whole Premium"** shall mean, with respect to any principal sum of a CFC Fixed Rate Advance paid prior to the expiration of the CFC Fixed Rate Term applicable thereto (the "Prepaid Principal Amount"), an amount calculated as set forth below. The Make-Whole Premium represents CFC's reinvestment loss resulting from making a fixed rate loan.

(1) Compute the amount of interest ("Loan Interest") that would have been due on the Prepaid Principal Amount at the applicable CFC Fixed Rate for the period from the prepayment date through the end of the CFC Fixed Rate Term (such period is hereinafter referred to as the "Remaining Term"), calculated on the basis of a 30-day month/360-day year, adjusted to include any amortization of principal in accordance with the amortization schedule that would have been in effect for the Prepaid Principal Amount.

(2) Compute the amount of interest ("Investment Interest") that would be earned on the Prepaid Principal Amount (adjusted to include any applicable amortization) if invested in a United States government security with a term equivalent to the Remaining Term, calculated on the basis of a 30-day month/360-day year. The yield used to determine the amount of Investment Interest shall be based upon United States government security yields dated no more than two Business Days prior to the prepayment date in Federal Reserve statistical release H.15 (519), under the caption "U.S. Government Securities/Treasury Constant Maturities". If there is no such United States government security under said caption with a term equivalent to the Remaining Term, then the yield shall be determined by interpolating between the terms of whole years nearest to the Remaining Term.

(3) Subtract the amount of Investment Interest from the amount of Loan Interest. If the difference is zero or less, then the Make-Whole Premium is zero. If the difference is greater than zero, then the Make-Whole premium is a sum equal to the present value of the difference, applying as the present value discount a rate equal to the yield utilized to determine Investment Interest.

**"Maturity Date"** with respect to each Note shall have the meaning ascribed to it therein.

**"Mortgage"** shall have the meaning as described in Schedule 1 hereto.

**"Mortgaged Property"** shall have the meaning ascribed to it in the Mortgage.

**"Non-Operating Margins--Interest"** shall mean the amount representing the interest component of non-operating margins of the Borrower computed pursuant to Accounting Requirements.

**"Note" or "Notes"** shall mean each secured promissory note, payable to the order of CFC, executed by the Borrower, dated as of even date herewith, pursuant to this Agreement as identified on Schedule 1 hereto, and shall include all substitute, amended or replacement promissory notes.

**"Obligations"** shall mean any and all liabilities, obligations or indebtedness owing by the Borrower to CFC, of any kind or description, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

**"Operating Margins"** shall mean the amount of patronage capital and operating margins of the Borrower computed pursuant to Accounting Requirements.

**"Payment Date"** shall mean the last day of each of the months referred to in Schedule 1.

**"Permitted Encumbrances"** shall have the meaning ascribed to it in the Mortgage.

**"Person"** shall mean natural persons, sole proprietorships, cooperatives, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, associations, companies, trusts or other organizations, irrespective of whether they are legal entities, and Governmental Authorities.

**"Prepayment Administrative Fee"** shall mean an amount equal to thirty three one-hundredths of one percent (0.33%) of the amount being prepaid.

**"Principal"** shall mean the amount of principal billed on account of Long-Term Debt of the Borrower computed pursuant to Accounting Requirements.

**"Prior Loan Documents"** shall mean, collectively, all long term loan agreements entered into prior to the date hereof by and between CFC and the Borrower, and all promissory notes delivered pursuant thereto secured under the Mortgage, other than loan agreements and notes or bonds representing loans sold, transferred assigned or otherwise endorsed by CFC to a purchaser thereof.

**"Restricted Rentals"** shall mean all rentals required to be paid under finance leases and charged to income, exclusive of any amounts paid under any such lease (whether or not designated therein as rental or additional rental) for maintenance or repairs, insurance, taxes, assessments, water rates or similar charges. For the purpose of this definition the term "finance lease" shall mean any lease having a rental term (including the term for which such lease may be renewed or extended at the option of the lessee) in excess of three (3) years and covering property having an initial cost in excess of \$250,000 other than automobiles, trucks, trailers, other

vehicles (including without limitation aircraft and ships), office, garage and warehouse space and office equipment (including without limitation computers).

“**RUS**” shall mean the Rural Utilities Service, an agency of the United States Department of Agriculture, or if at any time after the execution of this Agreement RUS is not existing and performing the duties of administering a program of rural electrification as currently assigned to it, then the entity performing such duties at such time.

“**Subsidiary**” as to any Person, shall mean a corporation, partnership, limited partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

“**Total Assets**” shall mean an amount constituting the total assets of the Borrower computed pursuant to Accounting Requirements.

“**Total Utility Plant**” shall mean the amount constituting the total utility plant of the Borrower computed pursuant to Accounting Requirements.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

**Section 2.01** The Borrower represents and warrants to CFC that as of the date of this Agreement:

**A. Good Standing.** The Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, is duly qualified to do business and is in good standing in those states in which it is required to be qualified to conduct its business. The Borrower is a member in good standing of CFC.

**B. Subsidiaries and Ownership.** Schedule 1 hereto sets forth a complete and accurate list of the Subsidiaries of the Borrower showing the percentage of the Borrower’s ownership of the outstanding stock, membership interests or partnership interests, as applicable, of each Subsidiary.

**C. Authority; Validity.** The Borrower has the power and authority to enter into this Agreement, the Note and the Mortgage; to make the borrowing hereunder; to execute and deliver all documents and instruments required hereunder and to incur and perform the obligations provided for herein, in the Note and in the Mortgage, all of which have been duly authorized by all necessary and proper action; and no consent or approval of any Person, including, as applicable and without limitation, members of the Borrower, which has not been obtained is required as a condition to the validity or enforceability hereof or thereof.

Each of this Agreement, the Note and the Mortgage is, and when fully executed and delivered will be, legal, valid and binding upon the Borrower and enforceable against the Borrower in

accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity.

**D. No Conflicting Agreements.** The execution and delivery of the Loan Documents and performance by the Borrower of the obligations thereunder, and the transactions contemplated hereby or thereby, will not: (i) violate any provision of law, any order, rule or regulation of any court or other Governmental Authority, any award of any arbitrator, the articles of incorporation or by-laws of the Borrower, or any indenture, contract, agreement, mortgage, deed of trust or other instrument to which the Borrower is a party or by which it or any of its property is bound; or (ii) be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under, any such award, indenture, contract, agreement, mortgage, deed of trust or other instrument, or result in the creation or imposition of any Lien (other than contemplated hereby) upon any of the property or assets of the Borrower.

The Borrower is not in default of any of its obligations to RUS or, in any material respect, under any agreement or instrument to which it is a party or by which it is bound and no event or condition exists which constitutes a default, or with the giving of notice or lapse of time, or both, would constitute a default under any such agreement or instrument.

**E. Taxes.** The Borrower, and each of its Subsidiaries, has filed or caused to be filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid all federal, state and local taxes, assessments, and Governmental Authority charges and levies thereon, including interest and penalties to the extent that such taxes, assessments, and Governmental Authority charges and levies have become due, except for such taxes, assessments, and Governmental Authority charges and levies which the Borrower or any Subsidiary is contesting in good faith by appropriate proceedings for which adequate reserves have been set aside.

**F. Licenses and Permits.** The Borrower has duly obtained and now holds all licenses, permits, certifications, approvals and the like necessary to own and operate its property and business that are required by Governmental Authorities and each remains valid and in full force and effect.

**G. Litigation.** There are no outstanding judgments, suits, claims, actions or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower, its Subsidiaries or any of their respective properties which, if adversely determined, either individually or collectively, would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries. The Borrower and its Subsidiaries are not, to the Borrower's knowledge, in default or violation with respect to any judgment, order, writ, injunction, decree, rule or regulation of any Governmental Authority which would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries.

**H. Financial Statements.** The balance sheet of the Borrower as at the date identified in Schedule 1 hereto, the statement of operations of the Borrower for the period ending on said date, and the interim financial statements of the Borrower, all heretofore furnished to CFC, are complete and correct. Said balance sheet fairly presents the financial condition of the Borrower as at said date and said statement of operations fairly reflects its operations for the period ending on said date. The Borrower has no contingent obligations or

extraordinary forward or long-term commitments except as specifically stated in said balance sheet or herein. There has been no material adverse change in the financial condition or operations of the Borrower from that set forth in said financial statements except changes disclosed in writing to CFC prior to the date hereof.

**I. Borrower's Legal Status.** Schedule 1 hereto accurately sets forth: (i) the Borrower's exact legal name, (ii) the Borrower's organizational type and jurisdiction of organization, (iii) the Borrower's organizational identification number or accurate statement that the Borrower has none, and (iv) the Borrower's place of business or, if more than one, its chief executive office as well as the Borrower's mailing address if different.

**J. Required Approvals.** No license, consent or approval of any Governmental Authority is required to enable the Borrower to enter into this Agreement, the Note and the Mortgage, or to perform any of its Obligations provided for in such documents, including without limitation (and if applicable), that of any state public utilities commission and any state public service commission, except as disclosed in Schedule 1 hereto, all of which the Borrower has obtained prior to the date hereof.

**K. Compliance With Laws.** The Borrower and each Subsidiary is in compliance, in all material respects, with all applicable requirements of law and all applicable rules and regulations of each Governmental Authority.

**L. Disclosure.** To the Borrower's knowledge, information and belief, neither this Agreement nor any document, certificate or financial statement furnished to CFC by or on behalf of the Borrower in connection herewith (all such documents, certificates and financial statements, taken as a whole) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements contained herein and therein not misleading.

**M. No Other Liens.** As to property which is presently included in the description of Mortgaged Property, the Borrower has not, without the prior written approval of CFC, executed or authenticated any security agreement or mortgage, or filed or authorized any financing statement to be filed with respect to assets owned by it, other than security agreements, mortgages and financing statements in favor of RUS and/or CFC, except as disclosed in writing to CFC prior to the date hereof or relating to Permitted Encumbrances.

**N. Environmental Matters.** Except as to matters which individually or in the aggregate would not have a material adverse effect upon the business or financial condition of the Borrower or its Subsidiaries, (i) the Borrower is in compliance with all Environmental Laws (including, but not limited to, having any required permits and licenses), (ii) there have been no releases (other than releases remediated in compliance with Environmental Laws) from any underground or aboveground storage tanks (or piping associated therewith) that are or were present at the Mortgaged Property, (iii) the Borrower has not received written notice or claim of any violation of any Environmental Law, (iv) there is no pending investigation of the Borrower in regard to any Environmental Law, and (v) to the best of the Borrower's knowledge, there has not been any release or contamination (other than releases or contamination remediated in compliance with Environmental Laws) resulting from the presence of Hazardous Materials on property owned, leased or operated by the Borrower.



### ARTICLE III

#### LOAN

**Section 3.01 Advances.** The Borrower shall submit its request for an Advance to CFC in writing (which may be submitted by facsimile) no later than 12:00 noon local time at CFC's offices in Dulles, Virginia on the Business Day prior to the Business Day the Borrower seeks to have funds advanced.

At the end of the Draw Period, CFC shall have no further obligation to make Advances. The obligation of the Borrower to repay the Advances shall be evidenced by one or more Notes.

**Section 3.02 Interest Rate and Payment.** Notes shall be payable and bear interest as follows:

**A. Payments; Maturity; Amortization.**

(i) Each Note shall have a Maturity Date that is not more than forty (40) years from the date hereof, *provided, however*, that if such date is not a Payment Date, then the Maturity Date shall be the Payment Date immediately preceding such date.

(ii) Prior to or at the time of each Advance, the Borrower shall elect an amortization method for principal with respect to such Advance. Each Advance shall amortize over a period not to exceed thirty-five (35) years from the date of such Advance, *provided, however*, that such period shall not extend beyond the Maturity Date. If no election is made, then the Advance shall amortize over a period ending on the earlier of the date that is thirty-five (35) years from the date of such Advance and the Maturity Date.

For each Advance, the Borrower shall promptly pay interest in the amount invoiced on each Payment Date until the first Payment Date of the Billing Cycle in which the Amortization Basis Date occurs. On such Payment Date, and on each Payment Date thereafter, the Borrower shall promptly pay interest and principal in the amounts invoiced. If not sooner paid, any amount due on account of the unpaid principal, interest accrued thereon and fees, if any, shall be due and payable on the Maturity Date. The amortization method for each Advance shall be as stated on Schedule 1 or, if not so stated, then as stated on the written requisition for such Advance submitted by the Borrower to CFC pursuant to the terms hereof.

(iii) CFC will invoice the Borrower at least ten (10) days before each Payment Date, *provided, however*, that CFC's failure to send an invoice shall not constitute a waiver by CFC or be deemed to relieve the Borrower of its obligation to make payments as and when due as provided for herein.

(iv) No provision of this Agreement or of any Note shall require the payment, or permit the collection, of interest in excess of the highest rate permitted by applicable law.

**B. Application of Payments.** Each payment shall be applied to the Obligations, first to any fees, costs, expenses or charges other than interest or principal, second to interest accrued, and the balance to principal.

**C. Selection of Interest Rate and Interest Rate Computation.** Prior to each Advance on a Note, the Borrower must select in writing either a CFC Fixed Rate or the CFC Variable Rate, as follows:

(i) CFC Fixed Rate. If the Borrower selects a CFC Fixed Rate for an Advance, then such rate shall be in effect for the CFC Fixed Rate Term selected by the Borrower. CFC shall provide the Borrower with at least sixty (60) days prior written or electronic notice of the Interest Rate Reset Date for such Advance. The Borrower may then select any available interest rate option for such Advance pursuant to CFC's policies of general application. The Advance shall bear interest according to the interest rate option so selected beginning on the Interest Rate Reset Date. If the Borrower does not select an interest rate in writing prior to the Interest Rate Reset Date, then beginning on the Interest Rate Reset Date the Advance shall bear interest at the CFC Variable Rate. CFC agrees that its long-term loan policies will include a fixed interest rate option until the Maturity Date. For any Advance, the Borrower may not select a CFC Fixed Rate with a CFC Fixed Rate Term that extends beyond the Maturity Date. Interest on Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days, until the first day of the Billing Cycle in which the Amortization Basis Date occurs; interest shall then be computed on the basis of a 30-day month and 360-day year.

(ii) CFC Variable Rate. If the Borrower selects the CFC Variable Rate for an Advance, then such CFC Variable Rate shall apply until the Maturity Date, unless the Borrower elects to convert to a CFC Fixed Rate pursuant to the terms hereof. Interest on Advances bearing interest at the CFC Variable Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

**Section 3.03 Conversion of Interest Rates.** The Borrower may at any time exercise any or all of the following interest rate conversion options by submitting a Conversion Request. The effective date of the interest rate conversion shall be determined by CFC pursuant to its policies of general application.

**A. CFC Variable Rate to a CFC Fixed Rate.** The Borrower may convert the interest rate on an outstanding Advance from the CFC Variable Rate to a CFC Fixed Rate without a fee. Upon such conversion, the new interest rate shall be the CFC Fixed Rate in effect on the date of the Conversion Request for the CFC Fixed Rate Term selected by the Borrower.

**B. CFC Fixed Rate to CFC Variable Rate.** The Borrower may convert the interest rate on an outstanding Advance from a CFC Fixed Rate to the CFC Variable Rate, provided that the Borrower promptly pays the invoiced amount for any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. Upon such conversion, the new interest rate shall be the CFC Variable Rate in effect on the date of the Conversion Request.

**C. A CFC Fixed Rate to Another CFC Fixed Rate.** The Borrower may convert the interest rate on an outstanding Advance from a CFC Fixed Rate to a different CFC Fixed Rate by selecting a different CFC Fixed Rate Term, provided that the Borrower promptly pays the invoiced amount for any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. Upon such

conversion, the new interest rate shall be the CFC Fixed Rate in effect on the date of the Conversion Request for the new CFC Fixed Rate Term selected by the Borrower.

**Section 3.04 Optional Prepayment.** The Borrower may at any time, on not less than thirty (30) days prior written notice to CFC, prepay any Advance, in whole or in part. In the event the Borrower prepays all or any part of an Advance (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), the Borrower shall pay any Prepayment Administrative Fee and/or Make-Whole Premium as CFC may prescribe pursuant to the terms of this Section 3.04. All prepayments shall be accompanied by payment of accrued and unpaid interest on the amount of and to the date of the repayment. All prepayments shall be applied first to fees, second to the payment of accrued and unpaid interest, and then to the unpaid balance of the principal amount of the applicable Advance.

If the Advance bears interest at the CFC Variable Rate, then the Borrower may on any Business Day prepay the Advance or any portion thereof, provided that the Borrower pays together therewith the Prepayment Administrative Fee. If the Advance bears interest at a CFC Fixed Rate, then the Borrower may prepay the Advance on (a) the Business Day before an Interest Rate Reset Date, provided that the Borrower pays together therewith the Prepayment Administrative Fee, or (b) any other Business Day, provided that the Borrower pays together therewith the Prepayment Administrative Fee and any applicable Make-Whole Premium.

**Section 3.05 Mandatory Prepayment.** If there is a change in the Borrower's corporate structure (including without limitation by merger, consolidation, conversion or acquisition), then upon the effective date of such change, (a) the Borrower shall no longer have the ability to request, and CFC shall have no obligation to make, Advances hereunder and (b) the Borrower shall prepay the outstanding principal balance of all Obligations, together with any accrued but unpaid interest thereon, any unpaid costs or expenses provided for herein, and a prepayment premium as set forth in any agreement between the Borrower and CFC with respect to any such Obligation or, if not specified therein, as prescribed by CFC pursuant to its policies of general application in effect from time to time.

Notwithstanding the foregoing, if after giving effect to such change in the Borrower's corporate structure, Borrower, or its successor in interest, is engaged in the furnishing of electric utility services to its members and patrons for their use as ultimate consumers and is organized as a cooperative, nonprofit corporation, public utility district, municipality, or other public governmental body, Borrower shall retain the ability to request, and CFC shall retain the obligation to make, Advances hereunder and no prepayment shall be required under this Section 3.05.

**Section 3.06 Default Rate.** If Borrower defaults on its obligation to make a payment due hereunder by the applicable Payment Date, and such default continues for thirty days thereafter, then beginning on the thirty-first day after the Payment Date and for so long as such default continues, Advances shall bear interest at the Default Rate.

## ARTICLE IV

### CONDITIONS OF LENDING

**Section 4.01 Conditions Precedent to Closing.** The obligation of CFC to make Advances hereunder shall not become effective until the date on which the following conditions precedent have been satisfied:

**A. Legal Matters.** All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for CFC.

**B. Representations and Warranties.** The representations and warranties contained in Article II shall be true on the date hereof.

**C. Closing Deliverables.** CFC shall have been furnished with the following, in form and substance satisfactory to CFC:

**(i) Documents.** (a) the executed Loan Documents, (b) certified copies of all such organizational documents and proceedings of the Borrower authorizing the transactions hereby contemplated as CFC shall require, (c) an opinion of counsel for the Borrower addressing such legal matters as CFC shall reasonably require, and (d) all other such documents as CFC may reasonably request.

**(ii) Government Approvals.** True and correct copies of all certificates, authorizations, consents, permits and licenses from Governmental Authorities (including RUS) necessary for the execution or delivery of the Loan Documents or performance by the Borrower of the obligations thereunder.

**D. Mortgage Recordation.** The Mortgage (and any amendments, supplements or restatements as CFC may require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a lien, subject to Permitted Encumbrances, on all of the Borrower's real property, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

**E. UCC Filings.** Uniform Commercial Code financing statements (and any continuation statements and other amendments thereto that CFC shall require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a perfected security interest, subject to Permitted Encumbrances, in the Mortgaged Property which may be perfected by the filing of a financing statement, all in accordance with all applicable laws, rules and regulations and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

**F. Additional Notes.** The Borrower shall have satisfied the requirements of either Section 2.01 or Section 2.03 of the Mortgage so that the Note executed pursuant hereto shall be an Additional Note under the Mortgage.

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**G. Special Conditions of Closing.** CFC shall be fully satisfied that the Borrower has complied with all special conditions of closing identified in Schedule 1 hereto.

**Section 4.02 Conditions to Advances.** The obligation of CFC to make each Advance hereunder is additionally subject to satisfaction of the following conditions:

**A. Requisitions.** The Borrower will requisition each Advance by submitting its written requisition to CFC, in form and substance satisfactory to CFC. Requisitions for Advances shall be made only for the purposes set forth in Schedule 1 hereto. Borrower agrees to deposit all funds advanced hereunder in its trustee special construction fund account.

**B. Representations and Warranties; Default.** The representations and warranties contained in Article II shall be true on the date of the making of each Advance hereunder with the same effect as though such representations and warranties had been made on such date; no Event of Default and no event which, with the lapse of time or the notice and lapse of time would become such an Event of Default, shall have occurred and be continuing or will have occurred after giving effect to each Advance on the books of the Borrower; there shall have occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower; and nothing shall have occurred which in the opinion of CFC materially and adversely affects the Borrower's ability to perform its obligations hereunder.

**C. Other Information.** The Borrower shall have furnished such other information as CFC may reasonably require, including but not limited to (i) information regarding the specific purpose for an Advance and the use thereof, (ii) feasibility studies, cash flow projections, financial analyses and pro forma financial statements sufficient to demonstrate to CFC's reasonable satisfaction that after giving effect to the Advance requested, the Borrower shall continue to achieve the DSC ratio set forth in Section 5.01.A herein, to meet all of its debt service obligations, and otherwise to perform and to comply with all other covenants and conditions set forth in this Agreement, and (iii) any other information as CFC may reasonably request.

**D. Special Conditions of Advances.** CFC shall be fully satisfied that the Borrower has complied with all special conditions to advance identified in Schedule 1 hereto.

**ARTICLE V**

**COVENANTS**

**Section 5.01 Affirmative Covenants.** The Borrower covenants and agrees with CFC that until payment in full of the Note and performance of all obligations of the Borrower hereunder:

**A. Financial Ratios; Design of Rates.** The Borrower shall achieve an Average DSC Ratio of not less than 1.35. The Borrower shall not decrease its rates for electric service if it has failed to achieve a DSC Ratio of 1.35 for the calendar year prior to such reduction subject only to an order from a Governmental Authority properly exercising jurisdiction over the Borrower.

**B. Loan Proceeds.** The Borrower shall use the proceeds of this loan solely for the purposes identified on Schedule 1 hereto.

**C. Notice.** The Borrower shall promptly notify CFC in writing of:

- (i) any material adverse change in the business, operations, prospects, assets, liabilities or financial condition of the Borrower;
- (ii) the institution or threat of any litigation or administrative proceeding of any nature involving the Borrower which could materially affect the business, operations, prospects, assets, liabilities or financial condition of the Borrower; and
- (iii) the occurrence of an Event of Default hereunder, or any event that, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

**D. Default Notices.** Upon receipt of any notices with respect to a default by the Borrower under the terms of any evidence of any indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto, the Borrower shall deliver copies of such notice to CFC.

**E. Annual Certificate.** Within one hundred twenty (120) days after the close of each calendar year, commencing with the year in which the initial Advance hereunder shall have been made, the Borrower will deliver to CFC a written statement, in form and substance satisfactory to CFC, either (a) signed by the Borrower's General Manager or Chief Executive Officer, or (b) submitted electronically through means made available to the Borrower by CFC, stating that during such year, and that to the best of said person's knowledge, the Borrower has fulfilled all of its obligations under this Agreement, the Note, and the Mortgage throughout such year or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof. The Borrower shall also deliver to CFC such other information as CFC may reasonably request from time to time.

**F. Reserved.**

**G. Financial Books; Financial Reports; Right of Inspection.** The Borrower will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Borrower, in accordance with Accounting Requirements. When requested by CFC, the Borrower will prepare and furnish CFC from time to time, periodic financial and statistical reports on its condition and operations. All of such reports shall be in such form and include such information as may be specified by CFC. Within one hundred twenty (120) days of the end of each calendar year during the term hereof, the Borrower shall furnish to CFC a full and complete report of its financial condition and statement of its operations as of the end of such calendar year, in form and substance satisfactory to CFC. In addition, within one hundred twenty (120) days of the end of each the Borrower's fiscal years during the term hereof, the Borrower shall furnish to CFC a full and complete consolidated and consolidating report of its financial condition and statement of its operations as of the end of such fiscal year, audited and certified by independent certified public accountants nationally recognized or otherwise satisfactory to CFC and accompanied by a report of such audit in form and substance satisfactory to CFC, including without limitation a consolidated and consolidating balance sheet and the related consolidated and consolidating statements of income and cash flow. CFC, through its representatives, shall at all times during reasonable business hours and upon prior notice have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks,

statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in anyway pertaining to its property or business.

**H. Notice of Additional Secured Debt.** The Borrower will notify CFC promptly in writing if it incurs any additional secured indebtedness other than indebtedness to CFC.

**I. Funds Requisition.** The Borrower agrees (i) that CFC may rely conclusively upon the interest rate option, interest rate term and other written instructions submitted to CFC in the Borrower's written request for an Advance hereunder, (ii) that such instructions shall constitute a covenant under this Agreement to repay the Advance in accordance with such instructions, the applicable Note, the Mortgage and this Agreement, and (iii) to request Advances only for the purposes set forth in Schedule 1 hereto.

**J. Compliance With Laws.** The Borrower and each Subsidiary shall remain in compliance, in all material respects, with all applicable requirements of law and applicable rules and regulations of each Governmental Authority.

**K. Taxes.** The Borrower shall pay, or cause to be paid all taxes, assessments or Governmental Authority charges lawfully levied or imposed on or against it and its properties prior to the time they become delinquent, except for any taxes, assessments or charges that are being contested in good faith and with respect to which adequate reserves as determined in good faith by the Borrower have been established and are being maintained.

**L. Further Assurances.** The Borrower shall execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which may be required under any applicable law, rule or regulation, or which CFC may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created thereby. The Borrower also agrees to provide to CFC, from time to time upon request, evidence reasonably satisfactory to CFC as to the perfection and priority of the Liens created or intended to be created by the Loan Documents.

**M. Environmental Covenants.** The Borrower shall:

- (i) at its own cost, comply in all material respects with all applicable Environmental Laws, including, but not limited to, any required remediation; and
- (ii) if it receives any written communication alleging the Borrower's violation of any Environmental Law, provide CFC with a copy thereof within ten (10) Business Days after receipt, and promptly take appropriate action to remedy, cure, defend, or otherwise affirmatively respond to the matter.

**N. Limitations on Loans, Investments and Other Obligations.** The aggregate amount of all purchases, investments, loans, guarantees, commitments and other obligations described in Section 5.02.D(i) of this Agreement shall at all times be less than fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity, whichever is greater.

**O. Special Covenants.** The Borrower agrees that it will comply with any special covenants identified in Schedule 1 hereto.

**Section 5.02 Negative Covenants.** The Borrower covenants and agrees with CFC that until payment in full of the Note and performance of all obligations of the Borrower hereunder, the Borrower will not, directly or indirectly, without CFC's prior written consent:

**A. Limitations on Mergers.** Consolidate with, merge, or sell all or substantially all of its business or assets, or enter into an agreement for such consolidation, merger or sale, to another entity or person unless such action is either approved, as is evidenced by the prior written consent of CFC, or the purchaser, successor or resulting corporation is or becomes a member in good standing of CFC and assumes the due and punctual payment of the Note and the due and punctual performance of the covenants contained in the Mortgage and this Agreement.

**B. Limitations on Sale, Lease or Transfer of Capital Assets; Application of Proceeds.** Sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset, except in accordance with this Section 5.02.B. If no Event of Default (and no event which with notice or lapse of time and notice would become an Event of Default) shall have occurred and be continuing, the Borrower may, without the prior written consent of CFC, sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset in exchange for fair market value consideration paid to the Borrower if the value of such capital asset is less than five percent (5%) of Total Utility Plant and the aggregate value of capital assets sold, leased or transferred in any 12-month period is less than ten percent (10%) of Total Utility Plant. Subject to the terms of the Mortgage, if the Borrower does sell, lease or transfer any capital assets, then the proceeds thereof (less ordinary and reasonable expenses incident to such transaction) shall immediately (i) be applied as a prepayment of the Note, to such installments as may be designated by CFC at the time of any such prepayment; (ii) in the case of dispositions of equipment, material or scrap, applied to the purchase of other property useful in the Borrower's business, although not necessarily of the same kind as the property disposed of, which shall forthwith become subject to the Lien of the Mortgage; or (iii) applied to the acquisition or construction of other property or in reimbursement of the costs of such property.

**C. Limitation on Dividends, Patronage Refunds and Other Distributions.**

(i) Make any Distribution if an Event of Default under this Agreement has occurred and is continuing; or

(ii) Make a Distribution in any calendar year in an amount greater than thirty percent (30%) of the Borrower's total margins for the preceding calendar year, unless, after giving effect to the Distribution, the total Equity of the Borrower will be at least twenty percent (20%) of its Total Assets.

**D. Limitations on Loans, Investments and Other Obligations.**

(i) (a) Purchase, or make any commitment to purchase, any stock, bonds, notes, debentures, or other securities or obligations of or beneficial interests in, (b) make, or enter into a commitment to make, any other investment, monetary or otherwise, in, (c) make, or enter into a commitment to make, any loan to, or (d) guarantee, assume, or otherwise become liable for, or enter into a commitment to guarantee, assume, or otherwise become liable for, any obligation of any Person if, after giving effect to such purchase, investment, loan, guarantee or



commitment, the aggregate amount thereof would exceed the greater of fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity.

(ii) The following shall not be included in the limitation of purchases, investments, loans and guarantees in (i) above: (a) bonds, notes, debentures, stock, or other securities or obligations issued by or guaranteed by the United States or any agency or instrumentality thereof; (b) bonds, notes, debentures, stock, commercial paper, subordinated capital certificates, or any other security or obligation issued by CFC or by institutions whose senior unsecured debt obligations are rated by at least two nationally recognized rating organizations in either of their two highest categories; (c) investments incidental to loans made by CFC; (d) any deposit that is fully insured by the United States; (e) loans and grants made by any Governmental Authority to the Borrower under any rural economic development program, but only to the extent that such loans and grants are non-recourse to the Borrower; and (f) unretired patronage capital allocated to the Borrower by CFC, a cooperative from which the Borrower purchases electric power, or a statewide cooperative association of which the Borrower is a member.

(iii) In no event may the Borrower take any action pursuant to subsection (i) if an Event of Default under this Agreement has occurred and is continuing,

**E. Organizational Change.** Change its type of organization or other legal structure, except as permitted by Section 5.02.A. hereof, in which case the Borrower shall provide at least 30 days prior written notice to CFC together with all documentation reflecting such change as CFC may reasonably require.

**F. Notice of Change in Borrower Information.** Change its (i) state of incorporation, (ii) legal name, (iii) mailing address, or (iv) organizational identification number, if it has one, unless the Borrower provides written notice to CFC at least thirty (30) days prior to the effective date of any such change together with all documentation reflecting any such change as CFC may reasonably require.

## ARTICLE VI

### EVENTS OF DEFAULT

**Section 6.01** The following shall be "Events of Default" under this Agreement:

**A. Representations and Warranties.** Any representation or warranty made by the Borrower herein, or in any of the other Loan Documents, or in any certificate or financial statement furnished to CFC hereunder or under any of the other Loan Documents shall prove to be false or misleading in any material respect.

**B. Payment.** The Borrower shall fail to pay (whether upon stated maturity, by acceleration, or otherwise) any principal, interest, premium (if any) or other amount payable under the Note and the Loan Documents within five (5) Business Days after the due date thereof.

**C. Other Covenants.**

(i) **No Grace Period.** Failure of the Borrower to observe or perform any covenant or agreement contained in Sections 5.01.A, 5.01.B, 5.01.D, 5.01.E, 5.01.G, 5.01.I, 5.01.N, 5.02 of this Agreement.

(ii) **Thirty Day Grace Period.** Failure of the Borrower to observe or perform any other covenant or agreement contained in this Agreement or any of the other Loan Documents, which shall remain unremedied for thirty (30) calendar days after written notice thereof shall have been given to the Borrower by CFC.

**D. Legal Existence, Permits and Licenses.** The Borrower shall forfeit or otherwise be deprived of (i) its authority to conduct business in the jurisdiction in which it is organized or in any other jurisdiction where such authority is required in order for the Borrower to conduct its business in such jurisdiction or (ii) permits, easements, consents or licenses required to carry on any material portion of its business.

**E. Other CFC Obligations.** The Borrower shall be in breach or default of any Obligation, which breach or default continues uncured beyond the expiration of any applicable grace period.

**F. Other Obligations.** The Borrower shall (i) fail to make any payment of any principal, premium or any other amount due or interest on any indebtedness with parties other than CFC which shall remain unpaid beyond the expiration of any applicable grace period, or (ii) be in breach or default with respect to any other term of any evidence of any other indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto which breach or default continues uncured beyond the expiration of any applicable grace period, if the effect of such failure, default or breach is to cause the holder or holders of that indebtedness to cause that indebtedness to become or be declared due prior to its stated maturity (upon the giving or receiving of notice, lapse of time, both or otherwise).

**G. Involuntary Bankruptcy.** An involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such involuntary case or other proceeding shall continue without dismissal or stay for a period of sixty (60) consecutive days; or an order for relief shall be entered against the Borrower under the federal bankruptcy laws or applicable state law as now or hereafter in effect.

**H. Insolvency.** The Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to, or be generally unable to, pay its debts as they become due, or shall take any action to authorize any of the foregoing.

**I. Dissolution or Liquidation.** Other than as provided in subsection H. above, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove

any execution, garnishment or attachment of such consequence as will impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within sixty (60) consecutive days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions set forth in Section 5.02.A.

**J. Material Adverse Change.** Any material adverse change in the business or condition, financial or otherwise, of the Borrower.

**K. Monetary Judgment.** The Borrower shall suffer any money judgment not covered by insurance, writ or warrant of attachment or similar process involving an amount in excess of \$100,000 and shall not discharge, vacate, bond or stay the same within a period of sixty (60) days.

**L. Nonmonetary Judgment.** One or more nonmonetary judgments or orders (including, without limitation, injunctions, writs or warrants of attachment, garnishment, execution, distraint, replevin or similar process) shall be rendered against the Borrower that, either individually or in the aggregate, could reasonably be expected to have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower.

## ARTICLE VII

### REMEDIES

**Section 7.01** If any Event of Default shall occur after the date of this Agreement and shall not have been remedied within the applicable grace period therefor, then in every such event (other than an event described in Section 6.01.G, 6.01.H or 6.01.I) and at any time during the continuance of such event, CFC may:

- (i) Cease making Advances hereunder;
- (ii) Declare all unpaid principal outstanding on the Note, all accrued and unpaid interest thereon, and all other Obligations to be immediately due and payable and the same shall thereupon become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived;
- (iii) Exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to the Borrower or for the credit or account of the Borrower against any and all of the Obligations of the Borrower now or hereafter existing hereunder or under the Note, including, but not limited to, patronage capital allocations and retirements, money due to the Borrower from equity certificates purchased from CFC, and any membership or other fees that would otherwise be returned to the Borrower. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have. The Borrower waives all rights of setoff, deduction, recoupment or counterclaim;

- (iv) Pursue all rights and remedies available to CFC that are contemplated by the Mortgage and the other Loan Documents in the manner, upon the conditions, and with the effect provided in the Mortgage and the other Loan Documents, including, but not limited to, a suit for specific performance, injunctive relief or damages; and
- (v) Pursue any other rights and remedies available to CFC at law or in equity.

If any Event of Default described in Section 6.01.G, 6.01.H or 6.01.I shall occur after the date of this Agreement, then CFC's commitment to make Advances hereunder shall automatically terminate and the unpaid principal outstanding on the Note, all accrued and unpaid interest thereon, and all other Obligations shall thereupon become immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. In addition, CFC may pursue all rights and remedies available to CFC that are contemplated by the Mortgage and the other Loan Documents in the manner, upon the conditions, and with the effect provided in the Mortgage and the other Loan Documents, including, but not limited to, a suit for specific performance, injunctive relief or damages and any other rights and remedies available to CFC at law or in equity.

Nothing herein shall limit the right of CFC to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default. Each right, power and remedy of CFC shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

## ARTICLE VIII

### MISCELLANEOUS

**Section 8.01 Notices.** All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by facsimile) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. All such communications shall be deemed to have been duly given (i) when personally delivered including, without limitation, by overnight mail or courier service, (ii) in the case of notice by United States mail, certified or registered, postage prepaid, return receipt requested, upon receipt thereof, or (iii) in the case of notice by facsimile, upon transmission thereof, provided such transmission is promptly confirmed by either of the methods set forth in clauses (i) or (ii) above in each case given or addressed as provided for herein. The Address for Notices of each of the respective parties is as follows:

The Borrower:

The address set forth in  
Schedule 1 hereto

National Rural Utilities Cooperative Finance Corporation:  
20701 Cooperative Way  
Dulles, Virginia 20166

Attention: General Counsel  
Fax # 866-230-5635

**Section 8.02 Expenses.** The Borrower shall reimburse CFC for any reasonable costs and out-of-pocket expenses paid or incurred by CFC (including, without limitation, reasonable fees and expenses of outside attorneys, paralegals and consultants) for all actions CFC takes, (a) to enforce the payment of any Obligation, to effect collection of any Mortgaged Property, or in preparation for such enforcement or collection, (b) to institute, maintain, preserve, enforce and foreclose on CFC's security interest in or Lien on any of the Mortgaged Property, whether through judicial proceedings or otherwise, (c) to restructure any of the Obligations, (d) to review, approve or grant any consents or waivers hereunder, (e) to prepare, negotiate, execute, deliver, review, amend or modify this Agreement, and (f) to prepare, negotiate, execute, deliver, review, amend or modify any other agreements, documents and instruments deemed necessary or appropriate by CFC in connection with any of the foregoing.

The amount of all such expenses identified in this Section 8.02 shall be secured by the Mortgage and shall be payable upon demand, and if not paid, shall accrue interest at the then prevailing CFC Variable Rate plus two hundred basis points.

**Section 8.03 Late Payments.** If payment of any amount due hereunder or under the Note is not received at CFC's office in Dulles, Virginia or such other location as CFC may designate to the Borrower within five (5) Business Days after the applicable due date thereof, the Borrower will pay to CFC, in addition to all other amounts due under the terms of the Loan Documents, any late payment charge as may be fixed by CFC from time to time pursuant to its policies of general application as in effect from time to time.

**Section 8.04 Non-Business Day Payments.** If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

**Section 8.05 Filing Fees.** To the extent permitted by law, the Borrower agrees to pay all expenses of CFC (including the reasonable fees and expenses of its counsel) in connection with the filing, registration, recordation or perfection of the Mortgage and any other security instruments as may be required by CFC in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to execution, filing, registration or recordation of any document or instrument in connection herewith. The Borrower agrees to save harmless and indemnify CFC from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by CFC in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due under the Loan Documents.

**Section 8.06 Waiver; Modification.** No failure on the part of CFC to exercise, and no delay in exercising, any right or power hereunder or under the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise by CFC of any right hereunder, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement, the Note or the other Loan

Documents and no consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent, and then such modification, waiver or consent shall be effective only in the specific instance and for the purpose for which given.

**SECTION 8.07 GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.**

(A) THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

(B) THE BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTIONS THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDINGS BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(C) THE BORROWER AND CFC EACH HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

**SECTION 8.08 INDEMNIFICATION.** THE BORROWER HEREBY INDEMNIFIES AND AGREES TO HOLD HARMLESS, AND DEFEND CFC AND ITS MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS AND REPRESENTATIVES (EACH AN "INDEMNITEE") FOR, FROM, AND AGAINST ALL CLAIMS, DAMAGES, LOSSES, LIABILITIES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, COSTS AND EXPENSES OF LITIGATION AND REASONABLE ATTORNEYS' FEES) ARISING FROM ANY CLAIM OR DEMAND IN RESPECT OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, THE MORTGAGED PROPERTY, OR THE TRANSACTIONS DESCRIBED IN THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ARISING AT ANY TIME, WHETHER BEFORE OR AFTER PAYMENT AND PERFORMANCE OF ALL OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS IN FULL, EXCEPTING ANY SUCH MATTERS ARISING SOLELY FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF CFC OR ANY INDEMNITEE. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN SECTION 8.10 HEREOF, THE OBLIGATIONS IMPOSED UPON THE BORROWER BY THIS SECTION SHALL SURVIVE THE REPAYMENT OF THE NOTE, THE TERMINATION OF THIS AGREEMENT AND THE TERMINATION OR RELEASE OF THE LIEN OF THE MORTGAGE.

**Section 8.09 Complete Agreement.** This Agreement, together with the schedules to this Agreement, the Note and the other Loan Documents, and the other agreements and matters referred to herein or by their terms referring hereto, is intended by the parties as a final expression of their agreement and is intended as a complete statement of the terms and conditions of their agreement. In the event of any conflict in the terms and provisions of this

Agreement and any other Loan Documents, the terms and provisions of this Agreement shall control.

**Section 8.10 Survival; Successors and Assigns.** All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall survive the execution and delivery to CFC of the Loan Documents and the making of the Loan hereunder and shall continue in full force and effect until all of the obligations under the Loan Documents have been paid in full. All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall inure to the benefit of the successors and assigns of CFC. The Borrower shall not have the right to assign its rights or obligations under this Agreement without the prior written consent of CFC, except as provided in Section 5.02.A hereof.

**Section 8.11 Use of Terms.** The use of the singular herein shall also refer to the plural, and vice versa.

**Section 8.12 Headings.** The headings and sub-headings contained in this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

**Section 8.13 Severability.** If any term, provision or condition, or any part thereof, of this Agreement, the Note or the other Loan Documents shall for any reason be found or held invalid or unenforceable by any Governmental Authority or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Note and the other Loan Documents shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

**Section 8.14 Prior Loan Documents.** It is understood and agreed that the covenants set forth in this Agreement under the Article entitled "COVENANTS" shall restate and supersede all of the covenants set forth in the corresponding Article or Articles of each Prior Loan Document dealing with covenants, regardless of the specific title or titles thereof, *except for* (a) the LCTC Purchase Provisions, (b) the CREB Provisions, and (c) any special covenant or other specific term set forth on Schedule 1 to any Prior Loan Document, unless otherwise explicitly agreed to in writing by CFC, or superseded by explicit reference thereto in this Agreement. For purposes of the foregoing, this Section 8.14 shall be deemed to amend all Prior Loan Documents, and notwithstanding termination of this Agreement for any reason, this Section 8.14 shall nevertheless survive and shall continue to amend each Prior Loan Document for as long as the respective Prior Loan Document is in effect, but only with respect to the matters set forth in this Section 8.14.

**Section 8.15 Binding Effect.** This Agreement shall become effective when it shall have been executed by both the Borrower and CFC and thereafter shall be binding upon and inure to the benefit of the Borrower and CFC and their respective successors and assigns.

**Section 8.16 Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same document. Signature pages may be detached from the counterparts and attached to a single copy of this Agreement to physically form one document.

**Section 8.17 Reserved.**

**Section 8.18 Schedule 1.** Schedule 1 attached hereto is an integral part of this Agreement.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

(SEAL)

By: Michael S. Williams  
Title: President / CEO

Attest: Paul L. Tuckman  
Secretary

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

(SEAL)

By: \_\_\_\_\_  
Assistant Secretary-Treasurer

Attest: \_\_\_\_\_  
Assistant Secretary-Treasurer

**SCHEDULE 1**

1. The purpose of this loan is to finance Eligible Property Additions, as such term is defined in 7 C.F.R., Part 1718, Subpart B, "Mortgage for Distribution Borrowers", as the same may be amended, superseded or restated from time to time.
2. The aggregate CFC Commitment is \$1,200,000.00. Within this aggregate amount, the Borrower may, at its discretion, execute one or more Notes, each Note representing a separate loan with CFC and containing a face amount and Maturity Date in accordance with the terms, conditions and provisions of this Agreement.
3. Draw Period shall mean the period of beginning on the date hereof and ending on the date that is five (5) years thereafter.
4. The Mortgage shall mean the Restated Mortgage and Security Agreement dated as of September 1, 2004, as supplemented by that certain Supplemental Mortgage dated as of even date herewith among the Borrower, CFC and RUS, as it may or shall be supplemented, amended, consolidated, or restated from time to time.
5. The Notes executed pursuant hereto and the amortization method for such Notes are as follows:

| LOAN NUMBER  | AMOUNT         | AMORTIZATION METHOD   |
|--------------|----------------|---|
| KY064-V-9040 | \$1,200,000.00 | As selected by Borrower in a written funds requisition at the time of Advance |

6. The Payment Date months are February, May, August and November.
7. The Subsidiaries of the Borrower referred to in Section 2.01.B are:  

| <u>Name of Subsidiary</u> | <u>% of Borrower's ownership</u> |
|---------------------------|----------------------------------|
| N/A                       |                                  |
8. The date of the Borrower's balance sheet referred to in Section 2.01.H is April 30, 2010-2012.
9. The Borrower's exact legal name is: Blue Grass Energy Cooperative Corporation
10. The Borrower's organizational type is: Corporation
11. The Borrower is organized under the laws of the state of: Kentucky
12. The Borrower's organizational identification number is: 0526514
13. The place of business or, if more than one, the chief executive office of the Borrower referred to in Section 2.01.I is 1201 Lexington Road, Nicholasville, KY 40340-0990.

14. The Governmental Authority referred to in Section 2.01.J is: Kentucky Public Service Commission.
15. The special conditions of closing referred to in Section 4.01.G are as follows: None
16. The special conditions of advance referred to in Section 4.02.D are as follows: None
17. The special covenants referred to in Section 5.01.O are as follows: None
18. The address for notices to the Borrower referred to in Section 8.01 is P.O. Box 990, Nicholasville, KY 40340-0990, Attention: General Manager, Fax: (859) 885-2854.
19. Special Provision Regarding Supplemental Financing: Notwithstanding anything to the contrary in this Agreement, if the Borrower intends to use any Advance hereunder to supplement a further loan to Borrower by RUS ("Concurrent Loan") pursuant to a loan agreement by and between Borrower and RUS ("Concurrent RUS Loan Agreement"), providing for a loan not to exceed the maximum aggregate principal amount set forth in Borrowers loan application with respect thereto ("Concurrent Loan Application"), then the Borrower hereby agrees as follows:
  - A. The Advance and the Concurrent Loan shall have the same amortization method and term.
  - B. As further conditions to CFC's obligation to make such Advance:
    1. *Prior to the date of such Advance*, Borrower shall have furnished to CFC true and complete copies of:
      - (a) Borrower's Concurrent Loan Application to RUS; and
      - (b) Borrower's financial and statistical reports to the RUS on RUS Form 7 (or any successor form) for the month of December for each of the three (3) most recent calendar years, and a copy of its most recent such report on RUS Form 7 (or any successor form), and by submitting such reports, Borrower shall be deemed to have represented and warranted to CFC that the facts stated therein are true.
    2. *On the date of such Advance*, (a) there shall have been no material adverse change in the facts stated in the RUS Form 7 (or any successor form) submitted in connection with the Advance, (b) Borrower shall not be in default of any of its obligations to RUS, and (c) by accepting such Advance, Borrower shall be deemed to have represented and warranted as to the facts set forth in (a) and (b) above.
  - C. As a further covenant hereunder, Borrower shall, as soon as practicable following approval of its Concurrent Loan Application, deliver to CFC a true, complete, and fully executed copy of the Concurrent RUS Loan Agreement and related promissory note executed by Borrower and payable to RUS, evidencing Borrower's obligations pursuant thereto, in maximum principal amount not to exceed the amount set forth in Borrower's Concurrent Loan Application.



Funds Requisition Statement

|                            |  |                      |                               |
|----------------------------|--|----------------------|-------------------------------|
| <b>Borrower Name</b>       |  | <b>Borrower ID #</b> | <b>Requested Funding Date</b> |
| <b>Banking Information</b> |  |                      |                               |
| <b>Bank Name</b>           |  |                      |                               |
| <b>Bank Account #</b>      |  |                      |                               |
| <b>Certification</b>       |  |                      |                               |

I hereby certify that as of the date below: (1) I am duly authorized to make this certification and to request funds on behalf of the Borrower (each such request, an "Advance") in accordance with the loan agreement governing the Advance (the "Loan Agreement"); (2) no Event of Default (as defined in the Loan Agreement) has occurred and is continuing; (3) I know of no other event that has occurred which, with the lapse of time and/or notification to CFC of such event, or after giving effect to the Advance, would become such an Event of Default; (4) all of the representations and warranties made in the Loan Agreement are true; (5) the Borrower has satisfied each other condition to the Advance as set forth in the Loan Agreement; and (6) the proceeds of the Advance will be used only for the purposes permitted by the Loan Agreement. I hereby authorize CFC to make Advances on the following terms, and hereby agree that such terms shall be binding upon Borrower under the provisions of the Loan Agreement:

| Facility Number | Amount | Repayment Term | Interest Rate Type (Fixed/Variable) | Interest Rate Term (if Fixed Rate) | Amortization Method | Purpose |
|-----------------|--------|----------------|-------------------------------------|------------------------------------|---------------------|---------|
|                 |        |                |                                     |                                    |                     |         |
|                 |        |                |                                     |                                    |                     |         |
|                 |        |                |                                     |                                    |                     |         |
|                 |        |                |                                     |                                    |                     |         |

Certified By: \_\_\_\_\_  
Signature
Date
Title of Authorized Officer

PLEASE FAX TO 703-467-5652 ATTN: \_\_\_\_\_, Associate Vice President

\*\*\*\*\*FOR INTERNAL USE ONLY\*\*\*\*\*

Recommended By: \_\_\_\_\_ Approved By: \_\_\_\_\_  
AVP
Portfolio Manager

**CERTIFICATE OF RESOLUTIONS AND INCUMBENCY**

I, PAUL TUCKER, do hereby certify that (i) I am the Secretary of Blue Grass Energy Cooperative Corporation (hereinafter called the "Cooperative"); (ii) the following are true and correct copies of resolutions duly adopted by the board of directors of the Cooperative at a meeting held on JANUARY 10, 2013; (iii) the meeting was duly and regularly called and held in accordance with the articles and bylaws of the Cooperative; (iv) the Cooperative is duly incorporated, validly existing and in good standing under the laws of the state of its incorporation and there is no pending or contemplated proceeding for the merger, consolidation, sale of assets or business or dissolution of the Cooperative; (v) none of the following resolutions has been rescinded or modified as of this date; and (vi) the persons authorized below have been duly elected or appointed to their respective positions and occupied such positions on the date of actual execution of the loan documents:

RESOLVED, that the Cooperative apply to borrow from National Rural Utilities Cooperative Finance Corporation ("CFC"), from time to time as determined by the persons designated by the board of directors of the Cooperative, an aggregate amount not to exceed One Million Two Hundred Thousand and No/100 Dollars (\$1,200,000.00), as set forth in the loan agreement with CFC governing such loan (the "Loan Agreement");

RESOLVED, that the proceeds of this loan be used for the purpose set forth in the Loan Agreement;

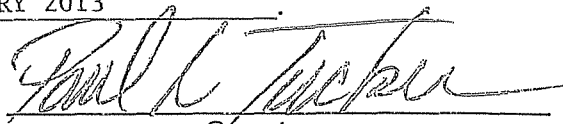
RESOLVED, that the individuals listed below are hereby authorized to execute and deliver to CFC the following documents:

- (a) the Loan Agreement, in such form and containing such terms as may be negotiated with CFC by the individual(s) authorized herein; and
- (b) one or more secured promissory notes payable to the order of CFC, which in the aggregate shall not exceed the principal amount of \$1,200,000.00.

RESOLVED, that each of the following individuals is hereby authorized in the name and on behalf of the Cooperative to execute and to deliver all such other documents and instruments as may be necessary or appropriate, to make all payments, to execute any future amendments to said Loan Agreement as such individual may deem appropriate within the amount of the promissory notes so authorized herein and to do all such other acts as in the opinion of such authorized individual acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions:

| <u>Title or Office</u>     | <u>Name (typed or printed)</u> |
|----------------------------|--------------------------------|
| <u>President &amp; CEO</u> | <u>MICHAEL I. WILLIAMS</u>     |
| _____                      | _____                          |
| _____                      | _____                          |

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the  
Cooperative this 10th day of JANUARY 2013.



Secretary

(SEAL)

**SECURED PROMISSORY NOTE**

\$1,200,000.00

dated as of February 14, 2013

BLUE GRASS ENERGY COOPERATIVE CORPORATION, a Kentucky corporation (the "Borrower"), for value received, hereby promises to pay, without setoff, deduction, recoupment or counterclaim, to the order of NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (the "Payee"), at its office in Dulles, Virginia or such other location as the Payee may designate to the Borrower, in lawful money of the United States, the principal sum of ONE MILLION TWO HUNDRED THOUSAND AND NO/100 DOLLARS (\$1,200,000.00), or such lesser sum of the aggregate unpaid principal amount of all advances made by the Payee pursuant to that certain Loan Agreement dated as of even date herewith between the Borrower and the Payee, as it may be amended from time to time (herein called the "Loan Agreement"), and to pay interest on all amounts remaining unpaid hereunder from the date of each advance in like money, at said office, at the rate and in amounts and payable on the dates provided in the Loan Agreement together with any other amount payable under the Loan Agreement. If not sooner paid, any balance of the principal amount and interest accrued thereon shall be due and payable forty (40) years from the date of the Loan Agreement (such date herein called the "Maturity Date") *provided, however*, that if such date is not a Payment Date (as defined in the Loan Agreement), then the Maturity Date shall be the Payment Date immediately preceding such date.

This Note is secured under a Restated Mortgage and Security Agreement dated as of September 1, 2004, as supplemented by that certain Supplemental Mortgage dated as of even date herewith, among the Borrower, the Payee and the United States of America, as it may or shall be supplemented, amended, consolidated or restated from time to time ("Mortgage"). This Note is one of the Notes referred to in, and has been executed and delivered pursuant to, the Loan Agreement.

The principal hereof and interest accrued thereon and any other amount due under the Loan Agreement may be declared to be forthwith due and payable in the manner, upon the conditions, and with the effect provided in the Mortgage or the Loan Agreement.

The Borrower waives demand, presentment for payment, notice of dishonor, protest, notice of protest, and notice of non-payment of this Note.

IN WITNESS WHEREOF the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and to be attested by its duly authorized officers, all as of the day and year first above written.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

(SEAL)

By: *Mark L. Williams*

Title: *President / CEO*

Attest: *Paul L. Tucker*  
Secretary

Loan No. KY064-V-9040

CFC NOTE  
KY064-V-9040 (MCGHEEM)  
175603-1