



Ernie Fletcher
Governor

LaJuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

Gregory Coker
Commissioner

May 9, 2005

Mr. Howard Downing
109 South First Street
Nicholasville, KY 40356

Re: Blue Grass Energy Cooperative Corp.

Dear Mr. Downing:

Commission Staff acknowledges receipt of your letter of April 21, 2005, regarding the enclosed letter of July 7, 2000. Please be advised that Commission Staff's position regarding the statutory requirements for prior Commission approval of a loan from the Federal Financing Bank remains unchanged.

This letter represents the legal opinion of the Commission Staff. The opinion is advisory in nature and is not binding on the Commission should this issue come before it in a formal proceeding. If you have any questions, please contact Gerald Wuetcher, Acting General Counsel, at 502-564-3940, Extension 259.

Sincerely,

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and curves.

Beth O'Donnell
Executive Director

GEW:v
Enclosure



PAUL E. PATTON, GOVERNOR

RONALD B. McCLOUD, SECRETARY
PUBLIC PROTECTION AND
REGULATION CABINET

MARTIN J. HUELSMANN
EXECUTIVE DIRECTOR
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

211 SOWER BLVD.
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602-0615
www.psc.state.ky.us
502-564-3940
FAX 502-564-3460

B.J. HELTON
CHAIRMAN

EDWARD J. HOLMES
VICE CHAIRMAN

GARY W. GILLIS
COMMISSIONER

July 7, 2000

Mr. Howard Downing
Blue Grass Energy Cooperative Corporation
109 South First Street
Nicholasville, Kentucky 40356

Dear Mr. Downing:

The Commission Staff has reviewed your request for a legal opinion on whether Blue Grass Energy Cooperative Corporation must receive Commission approval under KRS 278.300(1) prior to issuing evidences of indebtedness to the Federal Financing Bank, with a guarantee by the Rural Utilities Service, or whether the transaction is exempt under KRS 278.300(10).

The Commission's authority to regulate financing transactions is set forth in KRS 278.300. Specifically, KRS 278.300(1) provides that:

No utility shall issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person until it has been authorized so to do by order of the commission.

However, one of the exceptions to this requirement is KRS 278.300(10), which exempts from Commission approval any financing that is subject to the supervision or control of the federal government or an agency thereof. In this instance, the Federal Financing Bank is an instrumentality of the United States, having been created by an Act of Congress. See 12 U.S.C. § 2283. Thus, the transaction qualifies for the exemption set forth in KRS 278.300(10).

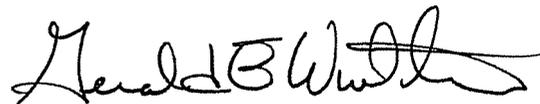


Mr. Howard Downing
Blue Grass Energy Cooperative Corporation
July 7, 2000
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We note that while your request references a supplemental mortgage to be issued to both the United States of America and National Rural Utilities Cooperative Finance Corporation ("CFC"), a copy was not included. Since financings issued through CFC are not exempt from Commission approval, a new mortgage containing substantive changes would need to be approved. However, if the only change to the existing CFC mortgage is to recognize the issuance and priority of the new notes, no approval would be necessary. Pursuant to your request, the other loan documents enclosed with your letter are being returned to you.

This letter represents the legal opinion of the Commission Staff. This opinion is advisory in nature and is not binding on the Commission should this issue come before it in a formal proceeding. If you have any questions, please contact Richard Raff, Staff Attorney, at 502/564-3940, Extension 260.

Sincerely yours,



Gerald E. Wuetcher
Assistant General Counsel

RR:v

Enclosures