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AUG 12 2008  
PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF )  
ADJUSTMENT OF RATES )  
OF BLUE GRASS ENERGY )  
COOPERATIVE CORPORATION ) NO. 2008-00011

PRE-FILING BY APPLICANT OF  
TESTIMONY OF JAMES D. ADKINS  
FOR HEARING ON AUGUST 12, 2008

Applicant, Blue Grass Energy Cooperative Corporation, submits for filing the written "Testimony of James D. Adkins" for consideration of the Kentucky Public Service Commission at hearing on August 12, 2008 in support of the "Settlement Stipulation and Recommendation" (as supplemented and amended) and the application for rate adjustment in this action.

  
HOWARD DOWNING  
109 South First Street  
Nicholasville, KY 40356  
Phone: 859-885-4619  
ATTORNEY FOR BLUE GRASS  
ENERGY COOPERATIVE CORPORATION

**CERTIFICATE OF SERVICE**

The undersigned counsel certifies that the foregoing Pre-Filing of Testimony of James D. Adkins has been served upon the following:

Original and Copies

Ms. Stephanie Stumbo  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40601

Copy

Hon. Lawrence W. Cook  
Assistant Attorney General  
1024 Capital Center Drive, Suite 200  
Frankfort, KY 40601-8204

Leigh and Troy Roach  
115 Prestwick Drive  
Georgetown, KY 40324

This 12<sup>th</sup> day of August, 2008.

  
ATTORNEY FOR BLUE GRASS ENERGY  
COOPERATIVE CORPORATION



A. This Settlement allows Blue Grass to recover through its retail electric rates an additional annual revenues in the amount of \$7,405,930. Blue Grass originally applied for an increase in revenues of approximately \$7,838,000. This reduction of \$432,093 is accomplished through a reduction in revenue requirements for Rate Schedule Gs-1 - Residential and Farm. Blue Grass Energy has additionally agreed to a Consumer Charge per month of \$8.75 which is a reduction to the amount of \$12.00 per month as filed in the original application. The energy charge per kWh is \$0.07658 per kWh.

5 Q The Settlement contains VII Exhibits. Please discuss these exhibits.

A This Settlement contains seven exhibits plus new tariff sheets. Exhibit I is a revised Statement of Operations and Balance Sheet for the test year that incorporates the revised increase in rates from this Settlement. Exhibit II provides the revised Net Investment Rate Base, Capital Structure and the rates of return thereon. Exhibit III provides the detailed information on the revised revenue requirements for Rate Schedule GS-1 and the rate design resulting from this Settlement. Exhibit IV presents the current rates and the proposed rates for all rate schedules for all of the districts for Blue Grass Energy prior to the consolidation of these rate classes. It does indicate the significant changes being proposed by Blue Grass Energy. Exhibit V provides a revenue analysis for the current rate schedules and the proposed rates. It also provides a view of the impact of these changes upon the current rate classes. Exhibit VI

provides the proposed rates for the consolidated rate classes proposed in this application. Exhibit VII is a revenue/billing analysis for the proposed rates and the consolidated rate class reflecting that the rates in Exhibit VI provides the revenue requirement as agreed to in this Settlement.

6 Q. Are any other attachments included in this Settlement besides those listed in the response to Question 5 above?

A. Yes, additional attachments are included in this Settlement. Tariff sheets containing the new rates and text revisions are also attached as a part of this Settlement. These new tariff sheets are the last item of the this Settlement.

7 Q. Are any new attachments a part of your testimony besides this Settlement?

A. Several new attachments are a part of this testimony. One new item is an amendment to the Settlement which includes language for the approval of the depreciation rates proposed in this application. A depreciation study was utilized to determine these depreciation rates and was a part of the original filing. Additionally, new rates for Schedule GS-3, Residential and Farm Time-of Day Rates, are also included that are consistent and based upon the revised revenue requirements for Schedule GS-1

8 Q. What is the last new item included as a part of this testimony?

A. The last attachment to this testimony are several schedules dealing with the long term and short term debt of Blue Grass Energy and the interest associated with this debt. Listed below is the actual debt of Blue Grass Energy, the

actual interest expense for the test year, and the interest expense included in the rate application.

	<u>Debt</u> <u>12/31/2007</u>	<u>Actual</u> <u>Interest</u>	<u>Application</u> <u>Interest</u> <u>Expense</u>
Long Term Debt	100,150,077	4,793,634	4,764,363
Short Term Debt	13,200,000	559,841	320,408
	<u>113,350,077</u>	<u>5,353,475</u>	<u>5,084,771</u>

The area of concern on interest rates deals with the FFB loans that Blue Grass Energy currently has on variable interest rates and the proper rate for rate-making. The interest expense amount contained in the original application is the same amount of interest expense as contained in the Settlement and is included as a part of the revised Statement of Operations in Exhibit I to the Settlement. This interest expense amount does vary somewhat from the current practice of the Kentucky Public Service Commission ("Commission") of updating the interest rates for the variable rate loans in place at the end of the test year. It should also be noted that interest expense on short term debt would be handled differently than as originally filed. The short term interest should have been calculated using the test year end debt multiplied by the test year end interest rates which is similar to how the long term debt has been calculated in this application. Blue Grass Energy feels that a deviation from the its current practice of updating its interest rates on year end variable rate loans is in order. Such a deviation is in order because the current ninety-day rates are extraordinarily low due to current discount rate

cuts by the Federal Reserve System. The use of these short term interest rates would not be prudent rate-making. The continued use of this practice at these low interest rate times may lead to imprudent financial decisions by a distribution cooperative in Kentucky. A prime example would be a cooperative anticipating a rate application before this Commission selecting a longer term option over the short term option to include an interest rate that will be more reflective of its anticipated interest costs over the life of the loan.

9 Q. What would be the basis for the long term interest rates that Blue Grass might propose?

A. Blue Grass feels that these long term loans should be valued at a longer term interest rate. Preference should be given to a thirty year rate since these loans are normally for this period of time. If the longer term period is not acceptable, then a period of time more representative of the time between rate cases should be considered such as seven years.

10 Q. What about the interest expense for short term debt?

Blue Grass Energy as well as other electric cooperatives are able to receive loans through the USDA Rural Development Electric Program after capital project expenses have been incurred. This fact causes Blue Grass to have short term debt on its Balance Sheet at the end of a test year that is for capital projects. Exhibit 4 to this testimony provides a listing of projects financed by short term debt. These projects were approved by this Commission in Case No. 2006-00540. recognition of that fact would lead to the practice to include some short term debt as long term debt for rate-making purposes. Since the Times Interest Earned Ratio

("TIER") is used as the basis for the level of margins in determining the revenue requirements, the long term interest rates have the effect of setting an expense amount and the margin amount. It is a double effect upon revenue requirements when TIER is a 2.0X.

11 Q What would be results for the suggestions mentioned above?

Listed below are interest expense and margin amounts for several scenarios:

Interest expense as filed in application	\$ 9,849,135
Interest expense where short term debt treatment is the same as long term debt	\$ 10,155,727
Interest expense consistent with current practice	\$ 8,714,252
Interest expense using a 30 year rate	\$ 10,029,486
Interest expense using a 7 year rate	\$ 9,567,860
Interest expense with short term debt considered as long term debt for rate making purposes	\$ 9,884,660

The above calculations indicate that how interest expense is calculated can have a tremendous impact upon the revenue requirements of a electric cooperative.

Blue Grass is presenting these examples not to change the interest expense amount in its Settlement with the Office of the Attorney General ("OAG") but to provide support for the method used by Blue Grass. The method utilized by Blue Grass for the interest expense in its application was to multiply the year end debt by the interest rate in effect at test year end to determine a proper interest expense.

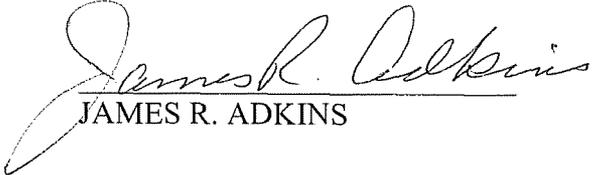
12 Q Does Blue Grass any additional documents that may provide support to statements Presented in this testimony.

A. Blue Grass is presenting six (6) additional documents in Exhibit 5 to this testimony.

These documents provide evidence the USDA Rural Development has had serious concerns about the current rates at Blue Grass and has constrained the ability of Blue Grass to receive loan funds. Blue Grass had to provide assurance and proof of the filing a rate application to receive a loan approval. Furthermore, loan advances could not be received until this rate application was filed and only one half of the loan amount could be advanced until this rate application is finalized and an order is received from this Commission.

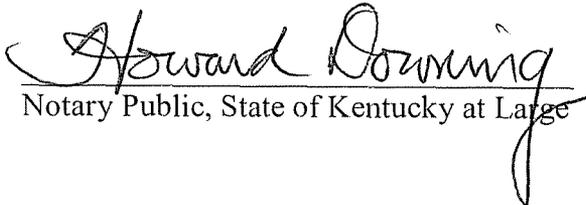
- 13 Q How does this settlement impact the financial situation at Blue Grass Energy?
- A. This Settlement should help to provide Blue Grass with the financial means to meets its expenses, pay its debt and to continued the payment of capital credits to its members on a consistent basis in the future.
- 14 Q. Does this conclude your testimony?
- A. This concludes my testimony.

Affiant, JAMES R. ADKINS, states that the answers given by him to the foregoing questions are true and correct to the best of his knowledge and belief.

  
JAMES R. ADKINS

Subscribed and sworn to before me by the affiant, JAMES R. ADKINS, this 12<sup>th</sup> day of August 2008.

My Commission expires: April 1, 2009

  
Notary Public, State of Kentucky at Large

UNsigned  
COPY

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF )  
ADJUSTMENT OF RATES )  
OF BLUE GRASS ENERGY )  
COOPERATIVE CORPORATION ) NO. 2008-00011**

**SUPPLEMENT AND ADDENDUM TO  
SETTLEMENT STIPULATION AND RECOMMENDATION**

This "Supplement and Addendum to Settlement Stipulation and Recommendation" is filed to document of record the treatment of Depreciation by Blue Grass Energy in the application for rate adjustment, as follows:

The parties further note and agree that the depreciation rates and amounts utilized in this application are in accordance with the methods sanctioned by the Commission and are fair, reasonable, just and should be adopted and implemented.

Dated: August 12, 2008.

BLUE GRASS ENERGY  
COOPERATIVE CORPORATION

KENTUCKY ATTORNEY GENERAL

BY: \_\_\_\_\_

BY: \_\_\_\_\_

\_\_\_\_\_  
TROY ROACH

\_\_\_\_\_  
LEIGH ROACH

**CLASSIFICATION OF SERVICE**

---

**GS-3 (Residential and Farm Time-of-Day Rate)**

**APPLICABLE**

Entire Territory Served

**AVAILABILITY**

Available to all consumers eligible for the Tariff GS-1, Residential and Farm. The capacity on individual motors served under this schedule may not exceed ten (10) horsepower.

**TYPE OF SERVICE**

Single-phase, 60 cycles, at available secondary voltage.

**RATES:**

Customer Charge	\$8.75 per meter, per month
<u>Energy Charge per kWh</u>	
<u>On-peak energy</u>	<u>\$0.09377</u>
<u>Off-peak energy</u>	<u>\$0.05741</u>

**On-Peak Hours and Off-Peak Hours**

<u>Months</u>	<u>On-Peak Hours</u>	<u>Off-Peak Hours</u>
<u>May through September</u>	<u>10:00 a.m. to 10:00 p.m.</u>	<u>10:00 p.m. to 10:00 a.m.</u>
<u>October through April</u>	<u>7:00 a.m. to 12:00 noon</u> <u>5:00 p.m. to 10:00 p.m.</u>	<u>10:00 p.m. to 7:00 a.m.</u> <u>12:00 noon to 5:00 p.m.</u>

**FUEL ADJUSTMENT CLAUSE**

All rates are applicable to the Fuel Adjustment Clause and may be increased or decreased by and amount per KWH equal to the fuel adjustment amount per KWH as billed by the Wholesale Power Supplier, plus an allowance for line losses. The allowance for line loss will not exceed 10% and is based on twelve-month moving average of such losses. This Fuel Clause is subject to all applicable provisions as set out in 807 KAR 5.056.

**MINIMUM MONTHLY CHARGES**

The minimum monthly charge under this tariff shall be the customer charge.

**DELAY PAYMENT CHARGE**

The above rates are net, the gross rates being 7.5% higher. In the event the current monthly bill is not paid within 15 days from the date of the bill, the gross rates shall apply.

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DATE OF ISSUE: April 11, 2008

DATE EFFECTIVE: May 11, 2008

ISSUED BY: \_\_\_\_\_ TITLE: Vice President & CFO  
(Name of Officer)

Issued by authority of an Order of the Public Service Commission of Kentucky  
in Case No.: \_\_\_\_\_ Dated: \_\_\_\_\_

**IMPACT ON REVENUE REQUIREMENTS FOR VARIOUS INTEREST RATE CALCULATIONS**

	<u>As Filed</u>	<u>Filed Should Be</u>	<u>Current PSC Practice</u>	<u>30 Year Interest Rate</u>	<u>7 Year Interest Rate</u>	<u>Sht Term Debt to Long Term at 7 Yr Rate</u>
Long Term Interest	4,764,363	4,764,363	4,043,626	4,701,243	4,470,430	4,470,430
Short Term Interest	320,408	627,000	627,000	627,000	627,000	471,900
Total	5,084,771	5,391,363	4,670,626	5,328,243	5,097,430	4,942,330
Margins	4,764,363	4,764,363	4,043,626	4,701,243	4,470,430	4,942,330
Impact on Revenue Requirements	9,849,135	10,155,727	8,714,252	10,029,486	9,567,860	9,884,660

Year End Short Term Debt	13,200,000
Interest Rate	<u>4.75%</u>
Interest Expense	<u>627,000</u>

LONG TERM INTEREST  
USING A THIRTY YEAR INTEREST RATE

	Type of <u>Debt Issued</u> (a)	Date of <u>Issue</u> (b)	Date of <u>Maturity</u> (c)	Outstanding <u>Amount</u> (d)	Cost Rate to <u>Maturity</u> (g)	Annualized Cost <u>Col (d)x(g)</u> (j)	Test Year Interest <u>Cost</u>
7	<b>RUS loans</b>						
8	B2190	Dec-72	Dec-07	2,313	2.000%	46	155
	B280	Aug-95	Jul-30	939,047	5.750%	53,995	54,569
9	B281	Aug-95	Jul-30	315,176	6.000%	18,911	19,104
10	B285	Aug-95	Jul-30	849,274	5.500%	46,710	47,219
11	B286	Aug-95	Jul-30	390,438	5.125%	20,010	20,240
12	B520	Jan-95	Dec-29	1,247,482	5.750%	71,730	72,530
13	B530	Jun-98	May-33	4,446,458	5.000%	222,323	224,463
14	B531	Jun-98	May-33	4,012,925	3.500%	140,452	147,313
15	B870	Sep-04	Aug-39	7,819,553	3.500%	273,684	285,904
16	B872	Sep-04	Aug-39	10,789,187	4.250%	458,540	461,931
17	B873	Sep-04	Aug-39	4,908,834	4.500%	220,898	222,451
18	B874	Sep-04	Aug-39	5,208,357	4.120%	214,584	188,722
19						0	0
20				<u>40,929,044</u>		<u>1,741,884</u>	<u>1,744,601</u>
21							
22	<b>FFB loans</b>						
23	H0010	Feb-99	Jan-34	5,521,562	5.077%	280,330	284,064
24	H0050	Feb-99	Jan-34	11,672,054	4.555%	531,662	569,740
25	H0055	Jun-00	May-35	2,709,821	4.906%	132,944	134,494
26	H0070	Jun-00	May-35	11,880,307	4.555%	541,148	579,093
27	H0075	Apr-05	Mar-40	3,053,186	4.904%	149,728	151,852
28				<u>34,836,930</u>		<u>1,635,812</u>	<u>1,719,243</u>
29							
30	<b>CFC loans</b>						
31	9001	Mar-74	Feb-09	14,935	7.00%	1,045	1,654
32	9004	Mar-75	Feb-10	24,533	5.65%	1,386	1,667
33	9005	Sep-76	Aug-11	84,973	6.95%	5,906	6,572
34	9006	Jun-78	May-13	270,485	7.00%	18,934	20,300
35	9007	Sep-80	Aug-15	390,838	5.65%	22,082	23,188
36	9008	Dec-82	Nov-17	275,340	7.00%	19,274	19,919
37	9009	Sep-84	Aug-19	585,774	7.00%	41,004	36,742
38	9010	Mar-89	Feb-24	1,249,286	7.10%	88,699	78,692
39	9011	Jun-95	May-30	1,099,030	7.10%	78,031	68,671
40	9013	Dec-73	Nov-08	5,459	7.00%	382	560
41	9014	Dec-74	Nov-09	27,142	7.00%	1,900	2,328
42	9015	Mar-76	Feb-11	73,782	6.95%	5,128	5,808
43	9016	Jun-78	May-13	200,391	6.10%	12,224	13,098
44	9017	Mar-80	Feb-15	220,124	7.00%	15,409	16,199
45	2018	Dec-84	Nov-19	193,603	7.00%	13,552	13,902
46	9019	Dec-86	Nov-21	188,825	7.10%	13,407	13,678
47	9020	Mar-91	Feb-26	469,120	7.10%	33,308	33,741
48	9021	Dec-94	Nov-29	529,864	5.65%	29,937	30,273

**BLUE GRASS ENERGY  
CASE NO. 2008-00011**

**LONG TERM INTEREST  
USING A THIRTY YEAR INTEREST RATE**

1					Cost		
2	Type	Date	Date	Outstanding	Rate	Annualized	Test Year
3	of	of	of	Amount	to	Cost	Interest
4	<u>Debt Issued</u>	<u>Issue</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>	<u>Col (d)x(g)</u>	<u>Cost</u>
5	(a)	(b)	(c)	(d)	(g)	(j)	
49	9024	Jun-72	May-07	6,239	7.00%	437	822
50	9026	Dec-73	Nov-08	10,864	7.00%	760	1,115
51	9027	Mar-75	Feb-10	19,305	5.65%	1,091	1,312
52	9028	Dec-75	Nov-10	75,920	5.65%	4,289	4,928
53	9029	Jun-77	May-12	114,320	5.65%	6,459	7,073
54	9030	Jun-79	May-14	168,330	5.65%	9,511	10,100
55	9031	Mar-81	Feb-16	219,188	5.65%	12,384	12,958
56	9032	Jun-83	May-18	149,529	5.65%	8,448	8,736
57	9033	Jun-85	May-20	211,875	5.65%	11,971	12,292
58	9034	Dec-87	Nov-22	233,725	5.65%	13,205	13,478
59	9035	Sep-89	Aug-24	413,947	5.65%	23,388	23,797
60	9036	Dec-93	Nov-28	741,513	5.65%	41,895	42,404
61	903705	Aug-03	May-08	552,265	3.65%	20,158	30,055
62	903706	Aug-03	May-09	1,094,587	4.10%	44,878	44,878
63	903707	Aug-03	May-10	1,094,587	4.35%	47,615	47,615
64	903708	Aug-03	May-11	1,094,587	4.65%	50,898	50,898
65	903709	Aug-03	May-12	1,094,587	4.85%	53,087	53,087
66	903710	Aug-03	May-13	1,094,587	5.05%	55,277	55,277
67	903711	Aug-03	May-14	1,094,587	5.25%	57,466	57,466
68	903712	Aug-03	May-15	1,094,587	5.30%	58,013	58,013
69	903713	Aug-03	May-16	1,094,587	5.40%	59,108	59,108
70	903714	Aug-03	May-17	1,094,587	5.35%	58,560	58,560
71	903715	Aug-03	May-18	1,094,587	5.45%	59,655	59,655
72	9037020	Aug-03	May-08	322,926	3.65%	11,787	17,574
73	9037021	Aug-03	May-09	640,039	4.10%	26,242	26,242
74	9037022	Aug-03	May-10	640,039	4.35%	27,842	27,842
75	9037023	Aug-03	May-11	640,039	4.65%	29,762	29,762
76	9037024	Aug-03	May-12	640,039	4.85%	31,042	31,042
77	9037025	Aug-03	May-13	640,039	5.05%	32,322	32,322
78	9037026	Aug-03	May-19	273,647	5.80%	15,872	15,872
79	9037027	Aug-03	May-19	273,647	5.88%	16,090	16,090
80	9037028	Aug-03	May-19	273,647	5.91%	16,173	16,173
81	9037029	Aug-03	May-19	273,647	5.94%	16,255	16,255
82				<u>24,384,103</u>		<u>1,323,547</u>	<u>1,329,793</u>
83							
84	Total long term debt and annualized cost			<u>100,150,077</u>		<u>4,701,243</u>	<u>4,793,637</u>
85							

LONG TERM INTEREST  
USING A SEVEN YEAR INTEREST RATE

	Type of <u>Debt Issued</u> (a)	Date of <u>Issue</u> (b)	Date of <u>Maturity</u> (c)	Outstanding <u>Amount</u> (d)	Cost Rate to <u>Maturity</u> (g)	Annualized Cost <u>Col (d)x(g)</u> (i)	Test Year Interest <u>Cost</u>
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12	B520	Jan-95	Dec-29	1,247,482	5.750%	71,730	72,530
13	B530	Jun-98	May-33	4,446,458	5.000%	222,323	224,463
14	B531	Jun-98	May-33	4,012,925	3.500%	140,452	147,313
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18	B874	Sep-04	Aug-39	5,208,357	4.120%	214,584	188,722
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22	<b>FFB loans</b>						
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24	H0050	Feb-99	Jan-34	11,672,054	3.575%	417,276	569,740
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30	<b>CFC loans</b>						
31	9001	Mar-74	Feb-09	14,935	7.00%	1,045	1,654
32	9004	Mar-75	Feb-10	24,533	5.65%	1,386	1,667
33	9005	Sep-76	Aug-11	84,973	6.95%	5,906	6,572
34	9006	Jun-78	May-13	270,485	7.00%	18,934	20,300
35	9007	Sep-80	Aug-15	390,838	5.65%	22,082	23,188
36	9008	Dec-82	Nov-17	275,340	7.00%	19,274	19,919
37	9009	Sep-84	Aug-19	585,774	7.00%	41,004	36,742
38	9010	Mar-89	Feb-24	1,249,286	7.10%	88,699	78,692
39	9011	Jun-95	May-30	1,099,030	7.10%	78,031	68,671
40	9013	Dec-73	Nov-08	5,459	7.00%	382	560
41	9014	Dec-74	Nov-09	27,142	7.00%	1,900	2,328
42	9015	Mar-76	Feb-11	73,782	6.95%	5,128	5,808
43	9016	Jun-78	May-13	200,391	6.10%	12,224	13,098
44	9017	Mar-80	Feb-15	220,124	7.00%	15,409	16,199
45	2018	Dec-84	Nov-19	193,603	7.00%	13,552	13,902
46	9019	Dec-86	Nov-21	188,825	7.10%	13,407	13,678
47	9020	Mar-91	Feb-26	469,120	7.10%	33,308	33,741
48	9021	Dec-94	Nov-29	529,864	5.65%	29,937	30,273

**BLUE GRASS ENERGY  
CASE NO. 2008-00011**

**LONG TERM INTEREST  
USING A SEVEN YEAR INTEREST RATE**

	<u>Type</u>	<u>Date</u>	<u>Date</u>	<u>Outstanding</u>	<u>Rate</u>	<u>Annualized</u>	<u>Test Year</u>
	<u>of</u>	<u>of</u>	<u>of</u>	<u>Amount</u>	<u>to</u>	<u>Cost</u>	<u>Interest</u>
	<u>Debt Issued</u>	<u>Issue</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>	<u>Col (d)x(g)</u>	<u>Cost</u>
	(a)	(b)	(c)	(d)	(g)	(j)	
49	9024	Jun-72	May-07	6,239	7.00%	437	822
50	9026	Dec-73	Nov-08	10,864	7.00%	760	1,115
51	9027	Mar-75	Feb-10	19,305	5.65%	1,091	1,312
52	9028	Dec-75	Nov-10	75,920	5.65%	4,289	4,928
53	9029	Jun-77	May-12	114,320	5.65%	6,459	7,073
54	9030	Jun-79	May-14	168,330	5.65%	9,511	10,100
55	9031	Mar-81	Feb-16	219,188	5.65%	12,384	12,958
56	9032	Jun-83	May-18	149,529	5.65%	8,448	8,736
57	9033	Jun-85	May-20	211,875	5.65%	11,971	12,292
58	9034	Dec-87	Nov-22	233,725	5.65%	13,205	13,478
59	9035	Sep-89	Aug-24	413,947	5.65%	23,388	23,797
60	9036	Dec-93	Nov-28	741,513	5.65%	41,895	42,404
61	903705	Aug-03	May-08	552,265	3.65%	20,158	30,055
62	903706	Aug-03	May-09	1,094,587	4.10%	44,878	44,878
63	903707	Aug-03	May-10	1,094,587	4.35%	47,615	47,615
64	903708	Aug-03	May-11	1,094,587	4.65%	50,898	50,898
65	903709	Aug-03	May-12	1,094,587	4.85%	53,087	53,087
66	903710	Aug-03	May-13	1,094,587	5.05%	55,277	55,277
67	903711	Aug-03	May-14	1,094,587	5.25%	57,466	57,466
68	903712	Aug-03	May-15	1,094,587	5.30%	58,013	58,013
69	903713	Aug-03	May-16	1,094,587	5.40%	59,108	59,108
70	903714	Aug-03	May-17	1,094,587	5.35%	58,560	58,560
71	903715	Aug-03	May-18	1,094,587	5.45%	59,655	59,655
72	9037020	Aug-03	May-08	322,926	3.65%	11,787	17,574
73	9037021	Aug-03	May-09	640,039	4.10%	26,242	26,242
74	9037022	Aug-03	May-10	640,039	4.35%	27,842	27,842
75	9037023	Aug-03	May-11	640,039	4.65%	29,762	29,762
76	9037024	Aug-03	May-12	640,039	4.85%	31,042	31,042
77	9037025	Aug-03	May-13	640,039	5.05%	32,322	32,322
78	9037026	Aug-03	May-19	273,647	5.80%	15,872	15,872
79	9037027	Aug-03	May-19	273,647	5.88%	16,090	16,090
80	9037028	Aug-03	May-19	273,647	5.91%	16,173	16,173
81	9037029	Aug-03	May-19	273,647	5.94%	16,255	16,255
82				24,384,103		1,323,547	1,329,793
83							
84	Total long term debt and annualized cost			100,150,077		4,470,430	4,793,637
85							

LONG TERM INTEREST  
USING SEVEN YEAR INTEREST RATE CONVERTING SHORT TERM DEBT TO LONG TERM DEBT

	Type of <u>Debt Issued</u> (a)	Date of <u>Issue</u> (b)	Date of <u>Maturity</u> (c)	Outstanding <u>Amount</u> (d)	Cost Rate to <u>Maturity</u> (g)	Annualized Cost <u>Col (d)x(g)</u> (j)	Test Year Interest <u>Cost</u>
7	<b>RUS loans</b>						
8	B2190	Dec-72	Dec-07	2,313	2.000%	46	155
	B280	Aug-95	Jul-30	939,047	5.750%	53,995	54,569
9	B281	Aug-95	Jul-30	315,176	6.000%	18,911	19,104
10	B285	Aug-95	Jul-30	849,274	5.500%	46,710	47,219
11	B286	Aug-95	Jul-30	390,438	5.125%	20,010	20,240
12	B520	Jan-95	Dec-29	1,247,482	5.750%	71,730	72,530
13	B530	Jun-98	May-33	4,446,458	5.000%	222,323	224,463
14	B531	Jun-98	May-33	4,012,925	3.500%	140,452	147,313
15	B870	Sep-04	Aug-39	7,819,553	3.500%	273,684	285,904
16	B872	Sep-04	Aug-39	10,789,187	4.250%	458,540	461,931
17	B873	Sep-04	Aug-39	4,908,834	4.500%	220,898	222,451
18	B874	Sep-04	Aug-39	5,208,357	4.120%	214,584	188,722
19						0	0
20				<u>40,929,044</u>		<u>1,741,884</u>	<u>1,744,601</u>
21							
22	<b>FFB loans</b>						
23	H0010	Feb-99	Jan-34	5,521,562	5.077%	280,330	284,064
24	H0050	Feb-99	Jan-34	11,672,054	3.575%	417,276	569,740
25	H0055	Jun-00	May-35	2,709,821	4.906%	132,944	134,494
26	H0070	Jun-00	May-35	11,880,307	3.575%	424,721	579,093
27	H0075	Apr-05	Mar-40	3,053,186	4.904%	149,728	151,852
28				<u>34,836,930</u>		<u>1,404,999</u>	<u>1,719,243</u>
29							
30	<b>CFC loans</b>						
31	9001	Mar-74	Feb-09	14,935	7.00%	1,045	1,654
32	9004	Mar-75	Feb-10	24,533	5.65%	1,386	1,667
33	9005	Sep-76	Aug-11	84,973	6.95%	5,906	6,572
34	9006	Jun-78	May-13	270,485	7.00%	18,934	20,300
35	9007	Sep-80	Aug-15	390,838	5.65%	22,082	23,188
36	9008	Dec-82	Nov-17	275,340	7.00%	19,274	19,919
37	9009	Sep-84	Aug-19	585,774	7.00%	41,004	36,742
38	9010	Mar-89	Feb-24	1,249,286	7.10%	88,699	78,692
39	9011	Jun-95	May-30	1,099,030	7.10%	78,031	68,671
40	9013	Dec-73	Nov-08	5,459	7.00%	382	560
41	9014	Dec-74	Nov-09	27,142	7.00%	1,900	2,328
42	9015	Mar-76	Feb-11	73,782	6.95%	5,128	5,808
43	9016	Jun-78	May-13	200,391	6.10%	12,224	13,098
44	9017	Mar-80	Feb-15	220,124	7.00%	15,409	16,199
45	2018	Dec-84	Nov-19	193,603	7.00%	13,552	13,902
46	9019	Dec-86	Nov-21	188,825	7.10%	13,407	13,678
47	9020	Mar-91	Feb-26	469,120	7.10%	33,308	33,741
48	9021	Dec-94	Nov-29	529,864	5.65%	29,937	30,273

LONG TERM INTEREST  
USING SEVEN YEAR INTEREST RATE CONVERTING SHORT TERM DEBT TO LONG TERM DEBT

1	2	3	4	5	6	7	8
	Type	Date	Date	Outstanding	Cost	Annualized	Test Year
	of	of	of	Amount	to	Cost	Interest
	<u>Debt Issued</u>	<u>Issue</u>	<u>Maturity</u>		<u>Maturity</u>	<u>Col (d)x(g)</u>	<u>Cost</u>
	(a)	(b)	(c)	(d)	(g)	(j)	
49	9024	Jun-72	May-07	6,239	7.00%	437	822
50	9026	Dec-73	Nov-08	10,864	7.00%	760	1,115
51	9027	Mar-75	Feb-10	19,305	5.65%	1,091	1,312
52	9028	Dec-75	Nov-10	75,920	5.65%	4,289	4,928
53	9029	Jun-77	May-12	114,320	5.65%	6,459	7,073
54	9030	Jun-79	May-14	168,330	5.65%	9,511	10,100
55	9031	Mar-81	Feb-16	219,188	5.65%	12,384	12,958
56	9032	Jun-83	May-18	149,529	5.65%	8,448	8,736
57	9033	Jun-85	May-20	211,875	5.65%	11,971	12,292
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59	9035	Sep-89	Aug-24	413,947	5.65%	23,388	23,797
60	9036	Dec-93	Nov-28	741,513	5.65%	41,895	42,404
61	903705	Aug-03	May-08	552,265	3.65%	20,158	30,055
62	903706	Aug-03	May-09	1,094,587	4.10%	44,878	44,878
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74	9037022	Aug-03	May-10	640,039	4.35%	27,842	27,842
75	9037023	Aug-03	May-11	640,039	4.65%	29,762	29,762
76	9037024	Aug-03	May-12	640,039	4.85%	31,042	31,042
77	9037025	Aug-03	May-13	640,039	5.05%	32,322	32,322
78	9037026	Aug-03	May-19	273,647	5.80%	15,872	15,872
79	9037027	Aug-03	May-19	273,647	5.88%	16,090	16,090
80	9037028	Aug-03	May-19	273,647	5.91%	16,173	16,173
81	9037029	Aug-03	May-19	273,647	5.94%	16,255	16,255
82				<u>24,384,103</u>		<u>1,323,547</u>	<u>1,329,793</u>
83							
84	Total long term debt and annualized cost			<u>100,150,077</u>		<u>4,470,430</u>	<u>4,793,637</u>
85							

Short Term Debt Converted to Long Tem Debt

13,200,000 3.575% 471,900

Total

4,942,330

LONG TERM DEBT AND INTEREST RATES  
AS FILED

	Type of Debt Issued (a)	Date of Issue (b)	Date of Maturity (c)	Outstanding Amount (d)	Cost Rate to Maturity (g)	Annualized Cost Col (d)x(g) (i)	Test Year Interest Cost
7	<b>RUS loans</b>						
8	B2190	Dec-72	Dec-07	2,313	2.000%	46	155
9	B280	Aug-95	Jul-30	939,047	5.750%	53,995	54,569
10	B281	Aug-95	Jul-30	315,176	6.000%	18,911	19,104
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LONG TERM DEBT AND INTEREST RATES  
AS FILED

1	2	3	4	5	6	7	8
	Type	Date	Date	Outstanding	Cost	Annualized	Test Year
	of	of	of	Amount	Rate	Cost	Interest
	<u>Debt Issued</u>	<u>Issue</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>	<u>Col (d)x(g)</u>	<u>Cost</u>
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80	9037028	Aug-03	May-19	273,647	5.91%	16,173	16,173
81	9037029	Aug-03	May-19	273,647	5.94%	16,255	16,255
82				<u>24,384,103</u>		<u>1,323,547</u>	<u>1,329,793</u>
83							
84	Total long term debt and annualized cost			<u>100,150,077</u>		<u>4,764,363</u>	<u>4,793,637</u>
85							
86	Annualized cost rate [Total Col. (j) / Total Col. (d)]					4.76%	
87	Actual test year cost rate [Total Col (k) / Total Reported in Col (d)]						4.79%
88							
89							

Blue Grass Energy  
Rate Case 2008-00011

The Work Plan for 2006-2009 (E44 loan) was approved by the PSC October 2006 Case No. 2006-00540 totaling \$42,824,000. Attached are correspondence from Rural Utilities Service and the Kentucky PSC concerning the loan approval. Also included is a detail of Work Orders and Special Equipment related to the \$12,000,000 advance that covers a period that is within ends with our Test Period 12/31/07.

Based on the RUS Loan Budget and Requisition Form 605, the following is a detail of Work Orders and Special Equipment submitted for work completed prior to January 1, 2008:

Date	Work Orders	Special Equipment
October-06	\$409,187.34	\$1,052,384.00
November-06	\$612,387.35	\$1,511,052.00
December-06	\$537,374.60	\$217,493.00
January-07	\$866,448.15	\$209,743.00
February-07	\$811,809.82	\$121,780.00
March-07	\$653,747.67	\$277,433.00
April-07	\$630,273.81	\$225,126.31
May-07	\$536,438.93	\$193,470.85
June-07	\$538,132.21	\$186,391.80
July-07	\$429,041.58	\$167,735.99
August-07	\$533,906.19	\$328,898.47
September-07	\$598,187.23	\$250,779.91
October-07	\$569,107.76	\$181,825.07
November-07	\$709,562.17	\$211,735.85
December-07	<u>\$402,627.14</u>	<u>\$128,187.55</u>
Total	\$8,838,231.95	\$5,264,036.80
Total Utility Plant	14,102,268.75	
April 08 Draw	<u>12,000,000.00</u>	
Balance 12/31/07	2,102,268.75	



United States Department of Agriculture  
Rural Development

APR 20 2007

Mr. Daniel W. Brewer  
President and CEO  
Blue Grass Energy Cooperative  
Corporation  
P.O. Box 990  
Nicholasville, Kentucky 40340-0990

APR 26 2007

Dear Mr. Brewer:

This is in response to the letter dated April 13, 2007, from Mr. J. Donald Smothers regarding the factors that contributed to Blue Grass Energy Cooperative Corporation's (Blue Grass) Operating Times Interest Earned Ratio (OTIER) falling below the minimum required level in 2006. We note that Blue Grass' financial ratios for 2007 are also projected to fall below the minimum required levels. It is our understanding that Blue Grass intends to file an application for a rate increase with the Kentucky Public Service Commission (KPSC) in early 2008 in order to remedy this situation. The decision to request a rate increase is never an easy one and we commend the board of directors and management of Blue Grass for recognizing the need and planning for this necessary action.

Blue Grass' pending "E44" loan application in the amount of \$43,126,000 is currently in the final review process. In view of the above information, please be advised that, if approved, the advance of funds from the "E44" loan will be conditioned upon the submission of evidence by Blue Grass that the KPSC has approved rates sufficient to permit Blue Grass to achieve the required financial ratios

While we understand your desire to minimize rate shock to your consumers, we urge you to consider preparation and presentation of your rate case to the KPSC as soon as possible. Please forward copies of the proposed change in rates to your General Field Representative, Mr. Mike Norman, and to this office when the rate case is filed, and copies of the final order from the KPSC when available.

Sincerely,

A handwritten signature in cursive script that reads "Brian D. Jenkins".

BRIAN D. JENKINS  
Chief, Operations Branch  
Northern Regional Division  
Electric Programs

1400 Independence Ave, S.W. · Washington DC 20250-0700  
Web: <http://www.rurdev.usda.gov>

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To file a complaint of discrimination, write USDA, Director, Office of Civil Rights,  
1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (800) 795-3272 (Voice) or (202) 720-6382 (TDD).



United States Department of Agriculture  
Rural Development

Mr. Jody Hughes  
Chairman  
Blue Grass Energy Cooperative  
Corporation  
P.O. Box 990  
Nicholasville, Kentucky 40340-0990

SEP 27 2007

SEP 13 2007

Dear Mr. Hughes:

We are pleased to advise you that a Treasury Rate Loan in the amount of \$42,824,000, and designated "E44," has been approved for Blue Grass Energy Cooperative Corporation (Blue Grass) by the Government. The interest rate on this Treasury Rate Loan will be the rate established daily by the United States Department of Treasury that is in effect at the time of each advance.

The loan agreement and related documents (loan documents) will be forwarded in the near future for execution. This loan is approved with the understanding that the loan documents will be authorized and executed by Blue Grass and returned to us in accordance with the instructions.

It should be noted that advances on the "E44" loan can be made only after the conditions set forth in the Loan Contract to be entered into between Blue Grass and the Government providing for the "E44" loan, including the special condition regarding Blue Grass providing this office with evidence of an approved retail rate schedule designed to generate sufficient revenues to meet its mortgage coverage ratios requirements, have been met.

We are sending a copy of this letter to your President and CEO, Mr. Daniel W. Brewer, and to the National Rural Utilities Cooperative Finance Corporation.

Sincerely,

FOR

JAMES M. ANDREW  
Administrator  
Utilities Programs

cc: Mr. Daniel W. Brewer, President and CEO

1400 Independence Ave. SW • Washington, DC 20250-0700  
Web: <http://www.rurdev.usda.gov>

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January 4, 2008

Joseph Badin, Director NRD  
Northern Regional Division  
1400 Independence Ave, S.W.  
STOP 1566  
Washington, DC 20250-1566

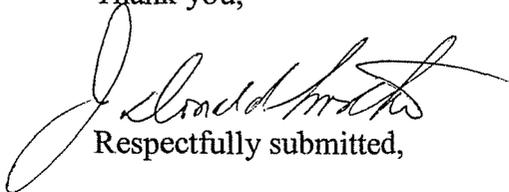
Dear Mr. Badin,

Attached is a copy of the letter to the Kentucky Public Service Commission stating that we will file an application for an increase in retail rates based on a historical test year ending December 31, 2007.

We are requesting RUS to release the special condition as soon as possible since we have filed the attached letter with the Kentucky Public Service Commission. This will generate sufficient revenues to meet our mortgage coverage ratios requirement. We have been using short term loans due to the delay in the loan process and have endured additional interest expense as a result.

We now have received all loan documents after 14 months and will return them shortly. We will then submit a requisition for loan funds. It would be an economic advantage to the Cooperative if short term funds could be substituted with long term. We appreciated your consideration and cooperation concerning our loan.

Thank you,



Respectfully submitted,

J. Donald Smothers  
Vice President, Financial Services & CFO

CC: Dan Brewer, President & CEO



**Blue Grass Energy  
Cooperative Corporation**

Nicholasville District Office  
PO Box 990  
1201 Lexington Road  
Nicholasville, Kentucky 40340-0990  
Phone: (859) 885-4191  
Fax: (859) 885-2854

*Exhibit JRA 5  
Page 4 of 6*

January 3, 2008

Beth A. O'Donnell, Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602

Dear Ms. O'Donnell:

This is to advise, in accordance with the Commission's Administrative Regulation 807 KAR 5:001, Section 11(2), that on or about April 1, 2008, Blue Grass Energy Cooperative Corporation intends to file an application for an increase in its retail rates based on a historical test year ending December 31, 2007.

If there are any questions concerning this matter, please contact me at your convenience.

Respectfully submitted,

Dan Brewer, President & CEO

copy to:

Attorney General  
Utility Intervention and Rate Division  
1024 Capital Center Drive  
Frankfort, Kentucky 40601



Exhibit JRA5  
Donald Page 5 of 6

United States Department of Agriculture  
Rural Development

MAR 27 2008

Mr. Daniel W. Brewer  
President and CEO  
Blue Grass Energy Cooperative  
Corporation  
P.O. Box 990  
Nicholasville, Kentucky 40340-0990

REC-111  
3-27-08

Dear Mr. Brewer:

This is in response to the letter dated March 19, 2008, from Mr. J. Donald Smothers regarding the factors that contributed to Blue Grass Energy Cooperative Corporation's (Blue Grass) Times Interest Earned Ratio (TIER), Operating TIER (OTIER), Debt Service Coverage (DSC) and Operating DSC (ODSC) falling below the minimum required levels in 2007. We note that Blue Grass has filed an application for a rate increase with the Kentucky Public Service Commission (KPSC) in January 2008 in order to remedy this situation. The decision to request a rate increase is never an easy one and we commend the board of directors and management of Blue Grass for recognizing the need and taking this necessary action.

Please forward copies of the KPSC's final order approving the change in rates to your General Field Representative, Mr. Mike Norman, and to this office when available.

Sincerely,

BRIAN D. JENKINS  
Chief, Operations Branch  
Northern Regional Division  
Electric Programs

1400 Independence Ave, SW • Washington, DC 20250-0700  
Web: <http://www.rurdev.usda.gov>

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Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).



United States Department of Agriculture  
Rural Development

Donald

APR 25 2008

MAY 01 2008

Mr. Daniel W. Brewer  
President and CEO  
Blue Grass Energy Cooperative  
Corporation  
P.O. Box 990  
Nicholasville, Kentucky 40340-0990

Dear Mr. Brewer:

Blue Grass Energy Cooperative Corporation (Blue Grass) has executed and returned all of the required "E44" loan documents and supporting papers. These documents have been reviewed and found legally acceptable and satisfactory to the Administrator and thus constitute a binding agreement between the Government and Blue Grass.

Based on the provisions of 7 CFR 1714, *Pre-Loan Policies and Procedures for Insured Electric Loans*, Blue Grass may have up to eight advances of funds under this Treasury Rate Loan. Please provide a letter from an authorized official of Blue Grass indicating the interest rate term selected with each advance of funds. The minimum interest rate term shall be one year.

Please note that due to the condition placed on the advance of funds from this loan, Blue Grass may only advance loan funds in the amount of \$21,412,000 (half the loan amount) at the present time. The remaining funds may only be advanced after Blue Grass has submitted evidence satisfactory to the Administrator that the Kentucky Public Service Commission has approved, and that Blue Grass has implemented, a retail rate design that demonstrates its ability to achieve Coverage Ratios, as defined in the Loan Contract.

Sincerely,

for

BRIAN D. JENKINS  
Chief, Operations Branch  
Northern Regional Division  
Electric Programs

1400 Independence Ave. SW • Washington, DC 20250-0700  
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