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PUBLIC SERVICE
COMMISSION

Big Sandy Rural Electric Cooperative
Attorney General's Initial Request for Information
Case No. 2005-00125

Witness: David Estep

Item 1. Settlement Agreement

Attached

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF BIG SANDY RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 95-383

O R D E R

On November 30, 1995, Big Sandy Rural Electric Cooperative Corporation ("Big Sandy") filed an application requesting a general increase in electric rates of \$509,958, an increase of approximately 4.54 percent over test year adjusted total operating revenues. The Attorney General, by and through his Public Service Litigation Branch, ("AG") requested and was granted full intervenor status.

The Commission entered a procedural schedule which provided for extensive discovery. At the conclusion of discovery, Big Sandy requested an informal conference which was held on March 14, 1996 to discuss any outstanding issues and determine whether any facts could be stipulated. The AG subsequently withdrew as an intervenor.

As a result of discussions held at the informal conference, Big Sandy and Commission Staff executed a Stipulation which was filed on April 8, 1996. The Stipulation is intended to resolve all outstanding issues of fact and, if accepted by the Commission, will obviate the need for a hearing. The Stipulation provides that Big Sandy is entitled to increase its electric rates to produce \$450,000 in additional revenues annually. The new rates, to be

effective with service rendered on and after May 1, 1996, will be designed as provided for in the Stipulation.

Based on the evidence of record and being otherwise sufficiently advised, the Commission hereby finds that the Stipulation is reasonable and should be accepted for rate-making purposes. The rates that result from the Stipulation are reasonable and in accord with generally accepted rate-making standards.

IT IS THEREFORE ORDERED that:

1. The Stipulation, attached hereto and incorporated herein as Appendix A, shall be accepted and approved.

2. The rates set forth in Appendix B to this Order shall be effective for service rendered on and after May 1, 1996.

3. The rates proposed by Big Sandy will produce revenue in excess of that provided for in the Stipulation and are denied.

4. Within 30 days from the date of this Order, Big Sandy shall file new tariff sheets in accordance with 807 KAR 5:011, reflecting the new rates set forth in Appendix B.

Done at Frankfort, Kentucky, this 17th day of April, 1996.

By the Commission

ATTEST:



Executive Director

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 95-383 DATED APRIL 17, 1996COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF BIG SANDY RURAL)
ELECTRIC COOPERATIVE CORPORATION) CASE NO. 95-383

STIPULATION

This Stipulation is entered into by and between Big Sandy Rural Electric Cooperative Corporation ("Big Sandy") and the Public Service Commission Staff (collectively referred to as the "Parties").

Big Sandy filed an application with the Public Service Commission on November 30, 1995 requesting a general increase in electric rates of \$509,958, an increase of approximately 4.54 percent over test year adjusted total operating revenues of \$11,125,124 (as shown in the Application, Notice Exhibit G, page 1 of 2, exclusive of the March 1, 1996 decrease in purchased power costs). The Attorney General's Office intervened and its subsequent motion to withdraw was granted by Order dated March 20, 1996.

At the request of Big Sandy, an informal conference was held at the Commission's offices on March 14, 1996. As a result of discussions held at that time, the Parties have agreed that the following provisions are reasonable based upon the evidence of record and should be accepted and adopted by the Public Service Commission.

1. Big Sandy shall be entitled to increase its electric rates to produce additional revenues of \$450,000 above test year adjusted total operating revenues.

2. Big Sandy shall be entitled to collect the additional revenues provided for in No. 1, above, by implementing the rates proposed in its Application, Notice Exhibit C, except that all proposed energy charges shall be reduced on a pro rata basis to reflect the March 1, 1996 decrease in purchased power costs and a decrease in the proposed revenue increase to \$450,000.

3. Big Sandy shall be entitled to implement the new rates derived in No. 2, above, for service rendered on and after May 1, 1996.

4. Staff is concerned that Big Sandy's current equity level is too high. Big Sandy has attempted to levelize its equity position by making general retirements of patronage capital during the last several years and agrees with the need to reduce equity. Big Sandy is committed to completing an equity management plan in the third quarter of 1996, agrees to continue to move toward a more reasonable level of equity, and will not build equity above existing levels as a result of the additional revenues provided for in this Stipulation.

5. The parties discussed funding for Big Sandy's liability accruing as a result of the Financial Accounting Standards Board's Statement of Financial Accounting Standards 106. Big Sandy was informed that in a number of prior cases the Commission had required funding of SFAS 106 liability to the extent economically

feasible considering the Federal Income Tax implications. Although Big Sandy is not presently funding this liability, Staff recommended that funding be considered.

6. Big Sandy agrees to use its best efforts to operate its system at the lowest reasonable cost consistent with its obligation to provide safe, adequate and efficient service.

7. Big Sandy agrees to waive any right that it may have to an evidentiary hearing and have this case submitted to the Public Service Commission for adjudication based on this Stipulation and the evidence of record. In the event that the Public Service Commission accepts without modification this Stipulation, Big Sandy agrees to waive its right to file for a rehearing before the Public Service Commission or an appeal to the Franklin Circuit Court.

8. In the event this Stipulation is not accepted and approved by the Public Service Commission, it shall become null and void and the Parties shall not be obligated or bound by any of the terms or provisions contained herein.

9. The provisions of this Stipulation are applicable to this proceeding only and establish no precedent on any issue that may subsequently arise in any future proceeding.

AGREED TO BY:

BIG SANDY RURAL ELECTRIC
COOPERATIVE CORPORATION

BY: Bruce A. Davis

April 2, 1996
DATE

TITLE: President/General Manager

PUBLIC SERVICE COMMISSION STAFF

BY: Richard G. Ross

April 5, 1996
DATE

TITLE: Staff Attorney

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 95-383 DATED APRIL 17, 1996

The following rates and charges are prescribed for the customers in the area served by Big Sandy Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SCHEDULE A-1
FARM AND HOME

Rate:

| | | |
|------------------------|-----------|-----------|
| Customer Charge | \$7.00 | Per Month |
| Energy Charge | \$.04947 | Per KWH |
| Off-Peak Energy Charge | .02968 | Per KWH |

SCHEDULE A-2
COMMERCIAL AND SMALL POWER

Rate:

| | | |
|---------------|-----------|---------|
| Demand Charge | \$4.00 | Per KWH |
| Energy Charge | \$.04388 | Per KWH |

SCHEDULE LP
LARGE POWER SERVICE

Rate:

| | | |
|-----------------|----------|---------|
| Energy Charge | | |
| Secondary Meter | \$.03450 | Per KWH |
| Primary Meter | \$.03381 | Per KWH |

SCHEDULE LPR
LARGE POWER RATE

Rate:

| | |
|-----------------|------------------|
| Energy Charge | |
| Secondary Meter | \$.03222 Per KWH |
| Primary Meter | \$.03156 Per KWH |

SCHEDULE YL-1
YARD SECURITY LIGHT SERVICE

Rate:

Flat rate per light per month as follows:

| | |
|------------|-------------------|
| 175 Watt | \$ 5.45 Per Month |
| 400 Watt | 7.35 Per Month |
| 500 Watt | 8.22 Per Month |
| 1,500 Watt | 16.77 Per Month |

SCHEDULE IND 1

Rate:

| | |
|-----------------------------|------------------|
| Energy Charge | \$.02765 Per KWH |
| Primary Meter Energy Charge | \$.02708 Per KWH |

SCHEDULE IND 2

Rate:

| | |
|-----------------------------|------------------|
| Energy Charge | \$.02265 Per KWH |
| Primary Meter Energy Charge | \$.02220 Per KWH |

NON-RECURRING CHARGES

Rate:

| | |
|----------------------|---------|
| Return Check | \$15.00 |
| Meter Reading | 25.00 |
| Collection | 25.00 |
| Reconnect-Disconnect | 37.50 |
| Overtime | 47.50 |

Witness: David Estep

Item 2. Joint mortgage agreement

- a. Copy is attached
- b. Big Sandy does not have a Joint Merger Agreement, nor is it aware that any should exist. However, Big Sandy believes that the requested TIER in its Application is necessary to maintain its compliance with the Joint Mortgage Agreement provisions, excluding G&T capital credits.

RUS Project Designation:
KENTUCKY 58-AM44 FLOYD

RUS LOAN CONTRACT

An Agreement Made By And Between
BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION,
as Borrower
and
UNITED STATES OF AMERICA,
as Lender

Dated as of November 1, 2004

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

No. _____

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RUS LOAN CONTRACT

AGREEMENT, dated as of November 1, 2004, between BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION ("Borrower"), a corporation organized and existing under the laws of the Commonwealth of Kentucky (the "State"), and the UNITED STATES OF AMERICA, acting by and through the Administrator of the Rural Utilities Service ("RUS").

RECITALS

The Borrower has applied to RUS for financial assistance for the purpose(s) set forth in Schedule 1 hereto.

RUS is willing to extend financial assistance to the Borrower pursuant to the Rural Electrification Act of 1936, as amended, on the terms and conditions stated herein.

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

ARTICLE I

DEFINITIONS

Capitalized terms that are not defined herein shall have the meanings as set forth in the Mortgage. The terms defined herein include the plural as well as the singular and the singular as well as the plural.

Act shall mean the Rural Electrification Act of 1936, as amended.

Advance or Advances shall mean advances of Loan funds to the Borrower which have been made or approved by RUS pursuant to the terms and conditions of this Agreement.

Agreement shall mean this Loan Contract together with all schedules and exhibits and also any subsequent supplements or amendments.

Business Day shall mean any day that RUS is open for business.

Contemporaneous Loan shall mean any loan which the Borrower has used to satisfy RUS Regulations or loan conditions requiring that supplemental financing be obtained in order to obtain a loan from RUS. Any loan used to refinance or refund a Contemporaneous Loan is also considered to be a Contemporaneous Loan.

Coverage Ratios shall mean, collectively, the following financial ratios: (i) TIER of 1.25; (ii) Operating TIER of 1.1; (iii) DSC of 1.25; and Operating DSC of 1.1.

Debt Service Coverage Ratio ("DSC") shall have the meaning provided in the Mortgage.

Distributions shall mean for the Borrower to, in any calendar year, declare or pay any dividends, or pay or determine to pay any patronage refunds, or retire any patronage capital or make any other Cash Distributions, to its members, stockholders or consumers; provided, however, that for the purposes of this Agreement a "Cash Distribution" shall be deemed to include any general cancellation or abatement of charges for electric energy or services furnished by the Borrower, but not the repayment of a membership fee upon termination of a membership or the rebate of an abatement of wholesale power costs previously incurred pursuant to an order of a state regulatory

authority or a wholesale power cost adjustment clause or similar power pricing agreement between the Borrower and a power supplier.

Electric System shall have the meaning as defined in the Mortgage.

Equity shall mean the Borrower's total margins and equities computed pursuant to RUS Accounting Requirements but excluding any Regulatory Created Assets.

Event of Default shall have the meaning as defined in Section 7.1.

Final Maturity Date shall have the meaning as defined in the Note.

Independent when used with respect to any specified person or entity means such a person or entity who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Borrower or in any affiliate of the Borrower and (3) is not connected with the Borrower as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

Interest Expense shall mean the interest expense of the Borrower computed pursuant to RUS Accounting Requirements.

Loan shall mean the loan described in Article III which is being made or guaranteed pursuant to the RUS Commitment in furtherance of the objectives of the Act.

Loan Documents shall mean, collectively, this Agreement, the Mortgage and the Note and shall also include any Reimbursement Note.

Long-Term Debt shall mean the total of all amounts included in the long-term debt of the Borrower pursuant to RUS Accounting Requirements.

Monthly Payment Date shall have the meaning as defined in the Note.

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

Mortgaged Property shall have the meaning as defined in the Mortgage.

Net Utility Plant shall mean the amount constituting the Total Utility Plant of the Borrower, less depreciation, computed in accordance with RUS Accounting Requirements.

Note shall mean a promissory note or notes executed by the Borrower in the form of Exhibit A hereto, and any note executed and delivered to RUS or to the Federal Financing Bank (FFB) to refund, or in substitution for such a note. If the RUS Commitment includes both a commitment by RUS to make a loan and also a commitment by RUS to guarantee a loan made by FFB, then Exhibit A includes both forms. Note shall also mean any promissory note or notes executed by the Borrower and delivered to a third party in connection with a loan that RUS has guaranteed as to payment pursuant to a master loan guaranty agreement.

Operating DSC or ODSC shall mean Operating Debt Service Coverage calculated as:

$$\text{ODSC} = \frac{A+B+C}{D}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;

- A = Depreciation and Amortization Expense of the Electric System;
- B = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which the Restricted Rentals of the Electric System exceed 2 percent of the Borrower's Equity;
- C = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System; and
- D = Debt service billed which equals the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt of the Electric System during the calendar year, plus 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity.

Operating TIER or OTIER shall mean Operating Times Interest Earned Ratio calculated as:

$$\text{OTIER} = \frac{A+B}{A}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;

- A = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity; and
- B = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System.

Permitted Debt shall have the meaning as defined in Section 6.13.

Prior Loan Contracts shall mean all loan and loan guarantee agreements, if any, previously entered into by and between RUS and the Borrower.

Regulatory Created Assets shall mean the sum of any amounts properly recordable as unrecovered plant and regulatory study costs or as other regulatory assets, computed pursuant to RUS Accounting Requirements.

Reimbursement Note shall mean any demand note of the Borrower which evidences the Borrower's obligation to immediately repay RUS any payments which RUS makes on behalf of the Borrower on the Note pursuant to a RUS guaranty if one has been provided under the terms of the RUS Commitment.

RUS Accounting Requirements shall mean any system of accounts prescribed by RUS Regulations as such RUS Accounting Requirements exist at the date of applicability thereof.

RUS Commitment shall have the meaning as defined in Schedule 1 hereto.

RUS Regulations shall mean regulations of general applicability published by RUS from time to time as they exist at the date of applicability thereof, and shall also include any regulations of other federal entities which RUS is required by law to implement.

Special Construction Account shall have the meaning as defined in Section 5.21.

Subsidiary shall mean a corporation that is a subsidiary of the Borrower and subject to the Borrower's control, as defined by RUS Accounting Requirements.

Termination Date shall mean the date specified in the Note after which no further Advances shall be made under the terms of the RUS Commitment.

Times Interest Earned Ratio ("TIER") shall have the meaning provided in the Mortgage.

Total Assets shall mean an amount constituting the total assets of the Borrower as computed pursuant to RUS Accounting Requirements, but excluding any Regulatory Created Assets.

Total Utility Plant shall mean the amount constituting the total utility plant of the Borrower computed in accordance with RUS Accounting Requirements.

Utility System shall have the meaning as defined in the Mortgage.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1. Representations and Warranties.

To induce RUS to make the Loan, and recognizing that RUS is relying hereon, the Borrower represents and warrants as follows:

- (a) Organization: Power, Etc. The Borrower: (i) is an organization of the type and organized in the jurisdiction set forth on the first page hereof, and is duly organized, validly existing, and in good standing under the laws of its state of incorporation; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary; (iii) has all requisite corporate and legal power to own and operate its assets and to carry on its business and to enter into and perform the Loan Documents; (iv) has duly and lawfully obtained and maintained all licenses, certificates, permits, authorizations, approvals, and the like which are material to the conduct of its business or which may be otherwise required by law; and (v) is eligible to obtain the financial assistance from RUS contemplated by this Agreement.
- (b) Authority. The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents and the performance of the transactions contemplated thereby have been duly authorized by all necessary corporate action and shall not violate any provision of law or of the Articles of Incorporation or By-Laws of the Borrower or result in a breach of, or constitute a default under, any agreement, indenture or other instrument to

which the Borrower is a party or by which it may be bound.

- (c) Consents. No consent, permission, authorization, order, or license of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Loan Documents, except (i) such as have been obtained and are in full force and effect and (ii) such as have been disclosed on Schedule 1 hereto.
- (d) Binding Agreement. Each of the Loan Documents is, or when executed and delivered shall be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally.
- (e) Compliance with Laws. The Borrower is in compliance in all material respects with all federal, state, and local laws, rules, regulations, ordinances, codes, and orders (collectively, "Laws"), the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents, except as the Borrower has disclosed to RUS in writing.
- (f) Litigation. There are no pending legal, arbitration, or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties, profits or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents, and to the best of the Borrower's knowledge, no such actions or proceedings are threatened or contemplated, except as the Borrower has disclosed to RUS in writing.
- (g) Title to Property. As to property which is presently included in the description of Mortgaged Property, the Borrower holds good and marketable title to all of its real property and owns all of its personal property free and clear of any Lien except Permitted Encumbrances or Liens permitted under the Mortgage.
- (h) Financial Statements; No Material Adverse Change; Etc. All financial statements submitted to RUS in connection with the application for the Loan or in connection with this Agreement fairly and fully present the financial condition of the Borrower and the results of the Borrower's operations for the periods covered thereby and are prepared in accordance with RUS Accounting Requirements consistently applied. Since the dates thereof, there has been no material adverse change in the financial condition or operations of the Borrower. All budgets, projections, feasibility studies, and other documentation submitted by the Borrower to RUS are based upon assumptions that are reasonable and realistic, and as of the date hereof, no fact has come to light, and no event or transaction has occurred, which would cause any assumption made therein not to be reasonable or realistic.
- (i) Principal Place of Business; Records. The principal place of business and chief executive office of the Borrower is at the address of the Borrower shown on Schedule 1 attached hereto.
- (j) Location of Properties. All property owned by the Borrower is located in the counties identified in Schedule 1 hereto.
- (k) Subsidiaries. The Borrower has no subsidiary, except as the Borrower has disclosed to RUS in writing.

- (l) Legal Name. The Borrower's exact legal name is that indicated on the signature page.
- (m) Organizational Number. Schedule 1 hereto accurately sets forth the Borrower's organizational identification number or accurately states that the Borrower has none.
- (n) Defaults Under Other Agreements. The Borrower is not in default under any agreement or instrument to which it is a party or under which any of its properties are subject that is material to its financial condition, operations, properties, profits, or business.
- (o) Survival. All representations and warranties made by the Borrower herein or made in any certificate delivered pursuant hereto shall survive the making of the Advances and the execution and delivery to RUS of the Note.

ARTICLE III

LOAN

Section 3.1. Advances.

RUS agrees to make, or in the case of any loan guaranteed by RUS, approve, and the Borrower agrees to request, on the terms and conditions of this Agreement, Advances from time to time in an aggregate principal amount not to exceed the RUS Commitment. On the Termination Date, RUS may stop advancing funds and limit the RUS Commitment to the amount advanced prior to such date. The obligation of the Borrower to repay the Advances shall be evidenced by the Note in the principal amount of the unpaid principal amount of the Advances from time to time outstanding. The Borrower shall give RUS written notice of the date on which each Advance is to be made.

Section 3.2. Interest Rate and Payment.

Each Note shall be payable and bear interest as follows:

- (a) Payments and Amortization. Principal shall be amortized in accordance with one or more methods stated in Schedule 1 hereto and more fully described in the form of each Note attached hereto as Exhibit A.
- (b) Application of Payments. All payments which the Borrower sends to RUS on any outstanding obligation owed to or guaranteed by RUS shall be applied in the manner provided in the Borrower's Loan Documents to which such payments relate and in a manner consistent with RUS policies, practices, and procedures for obligations that have been similarly classified by RUS.
- (c) Electronic Funds Transfer. Except as otherwise prescribed by RUS, the Borrower shall make all payments on each Note utilizing electronic funds transfer procedures as specified by RUS.
- (d) Fixed or Variable Rate. Each Note shall bear interest at either a fixed or variable rate in accordance with one or more methods stated in Schedule 1 hereto and as more particularly described in the form of each Note attached hereto as Exhibit A.

Section 3.3. Prepayment.

The Borrower has no right to prepay a Note in whole or in part except such rights, if any, as are

expressly provided for in a Note or applicable federal statutes. However, prepayment of a Note (and any penalties) shall be mandatory under Section 5.3 hereof if the Borrower has used a Contemporaneous Loan in order to qualify for the RUS Commitment, and later prepays the Contemporaneous Loan.

ARTICLE IV

CONDITIONS OF LENDING

Section 4.1. General Conditions.

The obligation of RUS to make or, in the case of any Loan guaranteed by RUS, approve to be made any Advance hereunder is subject to satisfaction of each of the following conditions precedent on or before the date of such Advance:

- (a) Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for RUS.
- (b) Loan Documents. That RUS receive duly executed originals of this Agreement and the other Loan Documents.
- (c) Authorization. That RUS receive evidence satisfactory to it that all corporate documents and proceedings of the Borrower necessary for duly authorizing the execution, delivery and performance of the Loan Documents have been obtained and are in full force and effect.
- (d) Approvals. That RUS receive evidence satisfactory to it that all consents and approvals (including without limitation the consents referred to in Section 2.1(c) of this Agreement) which are necessary for, or required as a condition of, the validity and enforceability of each of the Loan Documents have been obtained and are in full force and effect.
- (e) Event of Default. That no Event of Default specified in Article VII and no event which, with the lapse of time or the notice and lapse of time specified in Article VII would become such an Event of Default, shall have occurred and be continuing, or shall have occurred after giving effect to the Advance on the books of the Borrower.
- (f) Continuing Representations and Warranties. That the representations and warranties of the Borrower contained in this Agreement be true and correct on and as of the date of such Advance as though made on and as of such date.
- (g) Opinion of Counsel. That RUS receive an opinion of counsel for the Borrower (who shall be acceptable to RUS) in form and content acceptable to RUS.
- (h) Mortgage Filing. The Mortgage shall have been duly recorded as a mortgage on real property, including after-acquired real property, and a financing statement shall have been duly filed, recorded and indexed as a security interest in personal property, including after acquired personal property, wherever RUS shall have requested, all in accordance with applicable law, and the Borrower shall have caused satisfactory evidence thereof to be furnished to RUS.
- (i) Wholesale Power Contract. That the Borrower shall not be in default under the terms of, or contesting the validity of, any contract for sales for resale that has been pledged by any entity to RUS as security for the repayment of any loan made or guaranteed by RUS under

the Act.

- (j) Material Adverse Change. That there has occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower and nothing has occurred which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations hereunder.
- (k) Requisitions. That the Borrower shall requisition all Advances by submitting its requisition to RUS in form and substance satisfactory to RUS. Requisitions shall be made only for the purpose(s) set forth herein. The Borrower agrees to apply the proceeds of the Advances in accordance with its loan application with such modifications as may be mutually agreed.
- (l) Flood Insurance. That for any Advance used in whole or in part to finance the construction or acquisition of any building in any area identified by the Secretary of Housing and Urban Development pursuant to the Flood Disaster Protection Act of 1973 (the "Flood Insurance Act") or any rules, regulations or orders issued to implement the Flood Insurance Act ("Rules") as any area having special flood hazards, or to finance any facilities or materials to be located in any such building, or in any building owned or occupied by the Borrower and located in such a flood hazard area, the Borrower has submitted evidence, in form and substance satisfactory to RUS, or RUS has otherwise determined, that (i) the community in which such area is located is then participating in the national flood insurance program, as required by the Flood Insurance Act and any Rules, and (ii) the Borrower has obtained flood insurance coverage with respect to such building and contents as may then be required pursuant to the Flood Insurance Act and any Rules.
- (m) Compliance with Loan Contract and Mortgage. That the Borrower is in material compliance with all provisions of this Agreement and the Mortgage.

Section 4.2. Special Conditions.

The obligation of RUS to make or, in the case of any Loan guaranteed by RUS, approve to be made any Advance hereunder is also subject to satisfaction, on or before the date of such Advance, of each of the special conditions, if any, listed in Schedule 1 hereto.

ARTICLE V

AFFIRMATIVE COVENANTS

Section 5.1. Generally.

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding, the Borrower agrees to duly observe each of the affirmative covenants contained in this Article.

Section 5.2. Annual Certificates.

- (a) Performance under Loan Documents. The Borrower shall duly observe and perform all of its obligations under each of the Loan Documents.
- (b) Annual Certification. Within ninety (90) days after the close of each calendar year, commencing with the year following the year in which the initial Advance hereunder shall have been made, the Borrower shall deliver to RUS a written statement signed by its

General Manager, stating that during such year the Borrower has fulfilled all of its obligations under the Loan Documents throughout such year in all material respects 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.

Section 5.3. Simultaneous Prepayment of Contemporaneous Loans.

If the Borrower shall at any time prepay in whole or in part the Contemporaneous Loan described on Schedule 1, the Borrower shall prepay the RUS Note correspondingly in order to maintain the ratio that the Contemporaneous Loan bears to the RUS Commitment. If the RUS Note calls for a prepayment penalty or premium, such amount shall be paid but shall not be used in computing the amount needed to be paid to RUS under this section to maintain such ratio. In the case of Contemporaneous Loans and RUS Notes existing prior to the date of this Agreement under previous agreements, prepayments shall be treated as if governed by this section. Provided, however, in all cases prepayments associated with refinancing or refunding a Contemporaneous Loan pursuant to Article II of the Mortgage are not considered to be prepayments for purposes of this Agreement if they satisfy each of the following requirements:

- (a) Principal. The principal amount of such refinancing or refunding loan is not less than the amount of loan principal being refinanced; and
- (b) Weighted Average Life. The weighted average life of the refinancing or refunding loan is not less than the weighted average remaining life of the loan being refinanced.

Section 5.4. Rates to Provide Revenue Sufficient to Meet Coverage Ratios Requirements.

- (a) Prospective Requirement. The Borrower shall design and implement rates for utility service furnished by it to provide sufficient revenue (along with other revenue available to the Borrower in the case of TIER and DSC) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the Coverage Ratios. In designing and implementing rates under this paragraph, such rates should be capable of producing at least enough revenue to meet the requirements of this paragraph under the assumption that average weather conditions in the Borrower's service territory shall prevail in the future, including average Utility System damage and outages due to weather and the related costs.
- (b) Retrospective Requirement. The average Coverage Ratios achieved by the Borrower in the 2 best years out of the 3 most recent calendar years must be not less than any of the following:

| | |
|---------|------|
| TIER = | 1.25 |
| DSC = | 1.25 |
| OTIER = | 1.1 |
| ODSC = | 1.1 |

- (c) Prospective Notice of Change in Rates. The Borrower shall give thirty (30) days prior written notice of any proposed change in its general rate structure to RUS if RUS has requested in writing that it be notified in advance of such changes.
- (d) Routine Reporting of Coverage Ratios. Promptly following the end of each calendar year, the Borrower shall report, in writing, to RUS the TIER, Operating TIER, DSC and Operating DSC levels which were achieved during that calendar year.

- (e) Reporting Non-achievement of Retrospective Requirement. If the Borrower fails to achieve the average levels required by paragraph (b) of this section, it must promptly notify RUS in writing to that effect.
- (f) Corrective Plans. Within 30 days of sending a notice to RUS under paragraph (e) of this section, or of being notified by RUS, whichever is earlier, the Borrower in consultation with RUS, shall provide a written plan satisfactory to RUS setting forth the actions that shall be taken to achieve the required Coverage Ratios on a timely basis.
- (g) Noncompliance. Failure to design and implement rates pursuant to paragraph (a) of this section and failure to develop and implement the plan called for in paragraph (f) of this section shall constitute an Event of Default under this Agreement in the event that RUS so notifies the Borrower to that effect under section 7.1(d) of this Agreement.

Section 5.5. Depreciation Rates.

The Borrower shall adopt as its depreciation rates only those which have been previously approved for the Borrower by RUS.

Section 5.6. Property Maintenance.

The Borrower shall maintain and preserve its Utility System in compliance in all material respects with the provisions of the Mortgage, RUS Regulations and all applicable laws.

Section 5.7. Financial Books.

The Borrower shall at all times keep, and safely preserve, proper books, records and accounts in which full and true entries shall be made of all of the dealings, business and affairs of the Borrower and its Subsidiaries, in accordance with any applicable RUS Accounting Requirements.

Section 5.8. Rights of Inspection.

The Borrower shall afford RUS, through its representatives, reasonable opportunity, at all times during business hours and upon prior notice, to have access to and the right to inspect the Utility System, any other property encumbered by the Mortgage, and any or all books, records, accounts, 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, including its Subsidiaries, if any, and to make copies or extracts therefrom.

Section 5.9. Area Coverage.

- (a) The Borrower shall make diligent effort to extend electric service to all unserved persons within the service area of the Borrower who (i) desire such service and (ii) meet all reasonable requirements established by the Borrower as a condition of such service.
- (b) If economically feasible and reasonable considering the cost of providing such service and/or the effects on consumers' rates, such service shall be provided, to the maximum extent practicable, at the rates and minimum charges established in the Borrower's rate schedules, without the payment of such persons, other than seasonal or temporary consumers, of a contribution in aid of construction. A seasonal consumer is one that demands electric service only during certain seasons of the year. A temporary consumer is a seasonal or year-round consumer that demands electric service over a period of less than five years.

- (c) The Borrower may assess contributions in aid of construction provided such assessments are consistent with this section.

Section 5.10. Real Property Acquisition.

In acquiring real property, the Borrower shall comply in all material respects with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (the "Uniform Act"), as amended by the Uniform Relocation Act Amendments of 1987, and 49 CFR part 24, referenced by 7 CFR part 21, to the extent the Uniform Act is applicable to such acquisition.

Section 5.11. "Buy American" Requirements.

The Borrower shall use or cause to be used in connection with the expenditures of funds advanced on account of the Loan only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States or any eligible country, and only such manufactured articles, materials, and supplies as have been manufactured in the United States or any eligible country substantially all from articles, materials, and supplies mined, produced or manufactured, as the case may be, in the United States or any eligible country, except to the extent RUS shall determine that such use shall be impracticable or that the cost thereof shall be unreasonable. For purposes of this section, an "eligible country" is any country that applies with respect to the United States an agreement ensuring reciprocal access for United States products and services and United States suppliers to the markets of that country, as determined by the United States Trade Representative.

Section 5.12. Power Requirements Studies.

The Borrower shall prepare and use power requirements studies of its electric loads and future energy and capacity requirements in conformance with RUS Regulations.

Section 5.13. Long Range Engineering Plans and Construction Work Plans.

The Borrower shall develop, maintain and use up-to-date long-range engineering plans and construction work plans in conformance with RUS Regulations.

Section 5.14. Design Standards, Construction Standards, and List of Materials.

The Borrower shall use design standards, construction standards, and lists of acceptable materials in conformance with RUS Regulations.

Section 5.15. Plans and Specifications.

The Borrower shall submit plans and specifications for construction to RUS for review and approval, in conformance with RUS Regulations, if the construction will be financed in whole or in part by a loan made or guaranteed by RUS.

Section 5.16. Standard Forms of Construction Contracts, and Engineering and Architectural Services Contracts.

The Borrower shall use the standard forms of contracts promulgated by RUS for construction,

procurement, engineering services and architectural services in conformance with RUS Regulations, if the construction, procurement, or services are being financed in whole or in part by a loan being made or guaranteed by RUS.

Section 5.17. Contract Bidding Requirements.

The Borrower shall follow RUS contract bidding procedures in conformance with RUS Regulations when contracting for construction or procurement financed in whole or in part by a loan made or guaranteed by RUS.

Section 5.18. Nondiscrimination.

- (a) Equal Opportunity Provisions in Construction Contracts. The Borrower shall incorporate or cause to be incorporated into any construction contract, as defined in Executive Order 11246 of September 24, 1965 and implementing regulations, which is paid for in whole or in part with funds obtained from RUS or borrowed on the credit of the United States pursuant to a grant, contract, loan, insurance or guarantee, or undertaken pursuant to any RUS program involving such grant, contract, loan, insurance or guarantee, the equal opportunity provisions set forth in Exhibit B hereto entitled Equal Opportunity Contract Provisions.
- (b) Equal Opportunity Contract Provisions Also Bind the Borrower. The Borrower further agrees that it shall be bound by such equal opportunity clause in any federally assisted construction work which it performs itself other than through the permanent work force directly employed by an agency of government.
- (c) Sanctions and Penalties. The Borrower agrees that it shall cooperate actively with RUS and the Secretary of Labor in obtaining the compliance of contractors and subcontractors with the equal opportunity clause and the rules, regulations and relevant orders of the Secretary of Labor, that it shall furnish RUS and the Secretary of Labor such information as they may require for the supervision of such compliance, and that it shall otherwise assist the administering agency in the discharge of RUS's primary responsibility for securing compliance. The Borrower further agrees that it shall refrain from entering into any contract or contract modification subject to Executive Order 11246 with a contractor debarred from, or who has not demonstrated eligibility for, Government contracts and federally assisted construction contracts pursuant to Part II, Subpart D of Executive Order 11246 and shall carry out such sanctions and penalties for violation of the equal opportunity clause as may be imposed upon contractors and subcontractors by RUS or the Secretary of Labor pursuant to Part II, Subpart D of Executive Order 11246. In addition, the Borrower agrees that if it fails or refuses to comply with these undertakings RUS may cancel, terminate or suspend in whole or in part this contract, may refrain from extending any further assistance under any of its programs subject to Executive Order 11246 until satisfactory assurance of future compliance has been received from such Borrower, or may refer the case to the Department of Justice for appropriate legal proceedings.

Section 5.19. Financial Reports.

The Borrower shall cause to be prepared and furnished to RUS a full and complete annual report of its financial condition and of its operations in form and substance satisfactory to RUS, audited and certified by Independent certified public accountants satisfactory to RUS and accompanied by a report of such audit in form and substance satisfactory to RUS. The Borrower shall also furnish to RUS from time to time such other reports concerning the financial condition or operations of the Borrower, including its Subsidiaries, as RUS may reasonably request or RUS Regulations require.

Section 5.20. Miscellaneous Reports and Notices.

The Borrower shall furnish to RUS:

- (a) Notice of Default. Promptly after becoming aware thereof, notice of: (i) the occurrence of any default; and (ii) the receipt of any notice given pursuant to the Mortgage with respect to the occurrence of any event which with the giving of notice or the passage of time, or both, could become an "Event of Default" under the Mortgage.
- (b) Notice of Non-Environmental Litigation. Promptly after the commencement thereof, notice of the commencement of all actions, suits or proceedings before any court, arbitrator, or governmental department, commission, board, bureau, agency, or instrumentality affecting the Borrower which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (c) Notice of Environmental Litigation. Without limiting the provisions of Section 5.20(b) above, promptly after receipt thereof, notice of the receipt of all pleadings, orders, complaints, indictments, or other communications alleging a condition that may require the Borrower to undertake or to contribute to a cleanup or other response under laws relating to environmental protection, or which seek penalties, damages, injunctive relief, or criminal sanctions related to alleged violations of such laws, or which claim personal injury or property damage to any person as a result of environmental factors or conditions for which the Borrower is not fully covered by insurance, or which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (d) Notice of Change of Place of Business. Promptly in writing, notice of any change in location of its principal place of business or the office where its records concerning accounts and contract rights are kept.
- (e) Regulatory and Other Notices. Promptly after receipt thereof, copies of any notices or other communications received from any governmental authority with respect to any matter or proceeding which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (f) Material Adverse Change. Promptly, notice of any matter which has resulted or may result in a material adverse change in the condition, financial or otherwise, operations, properties, or business of the Borrower, or the ability of the Borrower to perform its obligations under the Loan Documents.
- (g) Assignment of Organizational Number. If the Borrower does not have an organizational identification number and later has one assigned to it, the Borrower will promptly notify RUS of such assigned organizational identification number.
- (h) Other Information. Such other information regarding the condition, financial or otherwise, or operations of the Borrower as RUS may, from time to time, reasonably request.

Section 5.21. Special Construction Account.

The Borrower shall hold all moneys advanced to it by RUS hereunder in trust for RUS and shall deposit such moneys promptly after the receipt thereof in a bank or banks which meet the requirements of Section 6.7 of this Agreement. Any account (hereinafter called "Special Construction Account") in which any such moneys shall be deposited shall be insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS and shall be designated by the corporate name of the Borrower followed by the words "Trustee, Special Construction Account." Moneys in any Special Construction Account shall be used solely for the construction and operation of the Utility System and may be withdrawn only upon checks, drafts, or orders signed on behalf of the Borrower and countersigned by an executive officer thereof.

Section 5.2.2. Additional Affirmative Covenants.

The Borrower also agrees to comply with any additional affirmative covenant(s) identified in Schedule 1 hereto.

ARTICLE VI
NEGATIVE COVENANTS

Section 6.1. General.

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding hereunder, the Borrower shall duly observe each of the negative covenants set forth in this Article.

Section 6.2. Limitations on System Extensions and Additions.

- (a) The Borrower shall not extend or add to its Electric System either by construction or acquisition without the prior written approval of RUS if the construction or acquisition is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee.
- (b) The Borrower shall not extend or add to its Electric System with funds from other sources without prior written approval of RUS in the case of:
 - (1) Generating facilities if the combined capacity of the facilities to be built, procured, or leased, including any future facilities included in the planned project, will exceed the lesser of 5 Megawatts or 30 percent of the Borrower's Equity;
 - (2) Existing electric facilities or systems in service whose purchase price, or capitalized value in the case of a lease, exceeds ten percent of the Borrower's Net Utility Plant; and
 - (3) Any project to serve a customer whose annual kWh purchases or maximum annual kW demand is projected to exceed 25 percent of the Borrower's total kWh sales or maximum kW demand in the year immediately preceding the acquisition or start of construction of facilities.

Section 6.3. Limitations on Changing Principal Place of Business.

The Borrower shall not change its principal place of business or keep property in a county not shown on a schedule to the Mortgage if the change would cause the lien in favor of RUS to become unperfected or fail to become perfected, as the case may be, unless, prior thereto, the

Borrower shall have taken all steps required by law in order to assure that the lien in favor of RUS remains or becomes perfected, as the case may be, and, in either event, such lien has the priority accorded by the Mortgage.

Section 6.4. Limitations on Employment and Retention of Manager.

At any time any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing the Borrower shall not employ any general manager of the Utility System or the Electric System or any person exercising comparable authority to such a manager unless such employment shall first have been approved by RUS. If any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing and RUS requests the Borrower to terminate the employment of any such manager or person exercising comparable authority, or RUS requests the Borrower to terminate any contract for operating the Utility System or the Electric System, the Borrower shall do so within thirty (30) days after the date of such notice. All contracts in respect of the employment of any such manager or person exercising comparable authority, or for the operation of the Utility System or the Electric System, shall contain provisions to permit compliance with the foregoing covenants.

Section 6.5. Limitations on Certain Types of Contracts.

Without the prior approval of RUS in writing, the Borrower shall not enter into any of the following contracts:

- (a) Construction contracts. Any contract for construction or procurement or for architectural and engineering services in connection with its Electric System if the project is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee;
- (b) Large retail power contracts. Any contract to sell electric power and energy for periods exceeding two (2) years if the kWh sales or kW demand for any year covered by such contract shall exceed 25 percent of the Borrower's total kWh sales or maximum kW demand for the year immediately preceding the execution of such contract;
- (c) Wholesale power contracts. Any contract to sell electric power or energy for resale and any contract to purchase electric power or energy that, in either case, has a term exceeding two (2) years;
- (d) Power supply arrangements. Any interconnection agreement, interchange agreement, wheeling agreement, pooling agreement or similar power supply arrangement that has a term exceeding two (2) years;
- (e) System management and maintenance contracts. Any contract for the management and operation of all or substantially all of its Electric System; or
- (f) Other contracts. Any contracts of the type described on Schedule 1.

Section 6.6. Limitations on Mergers and Sale, Lease or Transfer of Capital Assets.

- (a) The Borrower shall not consolidate with, or merge, or sell all or substantially all of its business or assets, to another entity or person except to the extent it is permitted to do so under the Mortgage. The exception contained in this paragraph (a) is subject to the additional limitation set forth in paragraph (b) of this section.

- (b) The Borrower shall not, without the written approval of RUS, voluntarily or involuntarily sell, convey or dispose of any portion of its business or assets (including, without limitation, any portion of its franchise or service territory) to another entity or person if such sale, conveyance or disposition could reasonably be expected to reduce the Borrower's existing or future requirements for energy or capacity being furnished to the Borrower under any wholesale power contract which has been pledged as security to RUS.

Section 6.7. Limitations on Using non-FDIC Insured Depositories.

Without the prior written approval of RUS, the Borrower shall not place the proceeds of the Loan or any loan which has been made or guaranteed by RUS in the custody of any bank or other depository that is not insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS.

Section 6.8. Limitation on Distributions.

Without the prior written approval of RUS, the Borrower shall not in any calendar year make any Distributions (exclusive of any Distributions to the estates of deceased natural patrons) to its members, stockholders or consumers except as follows:

- (a) Equity above 30%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 30% of its Total Assets; or
- (b) Equity above 20%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 20% of its Total Assets and the aggregate of all Distributions made during the calendar year when added to such Distribution shall be less than or equal to 25% of the prior year's margins.

Provided however, that in no event shall the Borrower make any Distributions if there is unpaid when due any installment of principal of (premium, if any) or interest on any of its payment obligations secured by the Mortgage, if the Borrower is otherwise in default hereunder or if, after giving effect to any such Distribution, the Borrower's current and accrued assets would be less than its current and accrued liabilities.

Section 6.9. Limitations on Loans, Investments and Other Obligations.

The Borrower shall not make any loan or advance to, or make any investment in, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of, or guaranty, assume or otherwise become obligated or liable with respect to the obligations of, any other person, firm or corporation, except as permitted by the Act and RUS Regulations.

Section 6.10. Depreciation Rates.

The Borrower shall not file with or submit for approval of regulatory bodies any proposed depreciation rates which are inconsistent with RUS Regulations.

Section 6.11. Historic Preservation.

The Borrower shall not, without approval in writing by RUS, use any Advance to construct any facilities which shall involve any district, site, building, structure or object which is included in, or eligible for inclusion in, the National Register of Historic Places maintained by the Secretary of the Interior pursuant to the Historic Sites Act of 1935 and the National Historic Preservation Act of 1966.

Section 6.12. Rate Reductions.

Without the prior written approval of RUS, the Borrower shall not decrease its rates if it has failed to achieve all of the Coverage Ratios for the calendar year prior to such reduction.

Section 6.13. Limitations on Additional Indebtedness.

Except as expressly permitted by Article II of the Mortgage and subject to the further limitations expressed in the next section, the Borrower shall not incur, assume, guarantee or otherwise become liable in respect of any debt for borrowed money and Restricted Rentals (including Subordinated Indebtedness) other than the following: ("Permitted Debt")

- (a) Additional Notes issued in compliance with Article II of the Mortgage;
- (b) Purchase money indebtedness in non-Utility System property, in an amount not exceeding 10% of Net Utility Plant;
- (c) Restricted Rentals in an amount not to exceed 5% of Equity during any 12 consecutive calendar month period;
- (d) Unsecured lease obligations incurred in the ordinary course of business except Restricted Rentals;
- (e) Unsecured indebtedness for borrowed money, except when the aggregate amount of such indebtedness exceeds 15% of Net Utility Plant and after giving effect to such unsecured indebtedness the Borrower's Equity is less than 30% of its Total Assets;
- (f) Debt represented by dividends declared but not paid; and
- (g) Subordinated Indebtedness approved by RUS.

PROVIDED, However, that the Borrower may incur Permitted Debt without the consent of RUS only so long as there exists no Event of Default hereunder and there has been no continuing occurrence which with the passage of time and giving of notice could become an Event of Default hereunder.

PROVIDED, FURTHER, by executing this Agreement any consent of RUS that the Borrower would otherwise be required to obtain under this section is hereby deemed to be given or waived by RUS by operation of law to the extent, but only to the extent, that to impose such a requirement of RUS consent would clearly violate federal laws or RUS Regulations.

Section 6.14. Limitations on Issuing Additional Indebtedness Secured Under the Mortgage.

- (a) The Borrower shall not issue any Additional Notes under the Mortgage to finance Eligible Property Additions without the prior written consent of RUS unless the following additional requirements are met in addition to the requirements set forth in the Mortgage for issuing Additional Notes:
 - (1) The weighted average life of the loan evidenced by such Notes does not exceed the weighted average of the expected remaining useful lives of the assets being financed;
 - (2) The principal of the loan evidenced by such Notes is amortized at a rate that shall

yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest; and

- (3) The principal of the loan being evidenced by such Notes has a maturity of not less than 5 years.
- (b) The Borrower shall not issue any Additional Notes under the Mortgage to refund or refinance Notes without the prior written consent of RUS unless, in addition to the requirements set forth in the Mortgage for issuing Refunding or Refinancing Notes, the weighted average life of any such Refunding or Refinancing Notes is not greater than the weighted average remaining life of the Notes being refinanced.
- (c) Any request for consent from RUS under this section, shall be accompanied by a certificate of the Borrower's manager substantially in the form attached to this Agreement as Exhibit C-1 in the case of Notes being issued under Section 2.01 of the Mortgage and C-2 in the case of Notes being issued under Section 2.02 of the Mortgage.

Section 6.15. Impairment of Contracts Pledged to RUS.

The Borrower shall not materially breach any obligation to be paid or performed by the Borrower on any contract, or take any action which is likely to materially impair the value of any contract, which has been pledged as security to RUS by the Borrower or any other entity.

Section 6.16. Notice of Organizational Changes.

The Borrower covenants and agrees with RUS that the Borrower will not, directly or indirectly, without giving written notice to RUS thirty (30) days prior to the effective date:

- (a) Change the name of the Borrower
- (b) Change the mailing address of the Borrower, and
- (c) Change its organizational identification number if it has one.

Section 6.17. Consent for Organizational Changes.

The Borrower covenants and agrees with RUS that the Borrower will not, directly or indirectly, without the prior written consent of RUS change its type of organization, jurisdiction of organization or other legal structure.

Section 6.18. Additional Negative Covenants.

The Borrower also agrees to comply with any additional negative covenant(s) identified in Schedule 1 hereto.

ARTICLE VII
EVENTS OF DEFAULT

Section 7.1. Events of Default.

The following shall be Events of Default under this Agreement:

- (a) Representations and Warranties. Any representation or warranty made by the Borrower in Article II hereof or any certificate furnished to RUS hereunder or under the Mortgage shall prove to have been incorrect in any material respect at the time made and shall at the time in question be untrue or incorrect in any material respect and remain uncured;
- (b) Payment. Default shall be made in the payment of or on account of interest on or principal of the Note or any other Government Note when and as the same shall be due and payable, whether by acceleration or otherwise, which shall remain unsatisfied for five (5) Business Days;
- (c) Borrowing Under the Mortgage in Violation of the Loan Contract. Default by the Borrower in the observance or performance of any covenant or agreement contained in Section 6.14 of this Agreement;
- (d) Other Covenants. Default by the Borrower in the observance or performance of any other covenant or agreement contained in any of the Loan Documents, which shall remain unremedied for 30 calendar days after written notice thereof shall have been given to the Borrower by RUS;
- (e) Corporate Existence. The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business;
- (f) Other Obligations. Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation;
- (g) Bankruptcy. A court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of ninety (90) consecutive days or the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors; and
- (h) Dissolution or Liquidation. Other than as provided in the immediately preceding subsection, 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 shall impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within 30 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 permitting such actions.

ARTICLE VIII

REMEDIES

Section 8.1. Generally.

Upon the occurrence of an Event of Default, then RUS may pursue all rights and remedies available to RUS that are contemplated by this Agreement or the Mortgage in the manner, upon the conditions, and with the effect provided in this Agreement or the Mortgage, including, but not limited to, a suit for specific performance, injunctive relief or damages. Nothing herein shall limit the right of RUS to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default listed in Article VII hereof. Each right, power and remedy of RUS 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.

Section 8.2. Suspension of Advances.

In addition to the rights, powers and remedies referred to in the immediately preceding section, RUS may, in its absolute discretion, suspend making or, in the case of any Loan guaranteed by RUS, approving Advances hereunder if (i) any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing; (ii) there has occurred a change in the business or condition, financial or otherwise, of the Borrower which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations under the Loan Documents, or (iii) RUS is authorized to do so under RUS Regulations.

ARTICLE IX

MISCELLANEOUS

Section 9.1. 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 telecopy) 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. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are set forth in Schedule 1 hereto.

Section 9.2. Expenses.

To the extent allowed by law, the Borrower shall pay all costs and expenses of RUS, including reasonable fees of counsel, incurred in connection with the enforcement of the Loan Documents or with the preparation for such enforcement if RUS has reasonable grounds to believe that such

enforcement may be necessary.

Section 9.3. Late Payments.

If payment of any amount due hereunder is not received at the United States Treasury in Washington, DC, or such other location as RUS may designate to the Borrower within five (5) Business Days after the due date thereof or such other time period as RUS may prescribe from time to time in its policies of general application in connection with any late payment charge (such unpaid amount being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower shall pay to RUS, in addition to all other amounts due under the terms of the Note, the Mortgage and this Agreement, any late-payment charge as may be fixed by RUS Regulations from time to time on the delinquent amount for the late-payment period.

Section 9.4. Filing Fees.

To the extent permitted by law, the Borrower agrees to pay all expenses of RUS (including the fees and expenses of its counsel) in connection with the filing or recordation of all financing statements and instruments as may be required by RUS in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify RUS 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 RUS 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 hereunder or due on the Note.

Section 9.5. No Waiver.

No failure on the part of RUS to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise by RUS of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

Section 9.6. Governing Law.

EXCEPT TO THE EXTENT GOVERNED BY APPLICABLE FEDERAL LAW, THE LOAN DOCUMENTS SHALL BE DEEMED TO BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE IN WHICH THE BORROWER IS INCORPORATED.

Section 9.7. Holiday 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 9.8. Rescission.

The Borrower may elect not to borrow the RUS Commitment in which event RUS shall release the Borrower from its obligations hereunder, provided the Borrower complies with such terms and conditions as RUS may impose for such release and provided also that if the Borrower has any remaining obligations to RUS for loans made or guaranteed by RUS under any Prior Loan

Contracts, RUS may, under Section 9.15 of this Loan Contract, withhold such release until all such obligations have been satisfied and discharged.

Section 9.9. Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the Borrower and RUS and their respective successors and assigns, except that the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of RUS.

Section 9.10. Complete Agreement; Waivers and Amendments.

Subject to RUS Regulations, this Agreement and the other Loan Documents are intended by the parties to be a complete and final expression of their agreement. However, RUS reserves the right to waive its rights to compliance with any provision of this Agreement and the other Loan Documents. No amendment, modification, or waiver of any provision hereof or thereof, and no consent to any departure of the Borrower herefrom or therefrom, shall be effective unless approved in writing by RUS in the form of either a RUS Regulation or other writing signed by or on behalf of RUS, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 9.11. Headings.

The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

Section 9.12. Severability.

If any term, provision or condition, or any part thereof, of this Agreement or the Mortgage shall for any reason be found or held invalid or unenforceable by any governmental agency 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 Mortgage shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 9.13. Right of Setoff.

Upon the occurrence and during the continuance of any Event of Default, RUS is hereby authorized at any time and from time to time, without prior notice to the Borrower, to exercise rights of setoff or recoupment and apply any and all amounts held or hereafter held, by RUS 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. RUS agrees to notify the Borrower promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of RUS under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which RUS may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

Section 9.14. Schedules and Exhibits.

Each Schedule and Exhibit attached hereto and referred to herein is each an integral part of this Agreement.

Section 9.15. Prior Loan Contracts.

With respect to all Prior Loan Contracts, the Borrower shall, commencing on the delivery date hereof, prospectively meet the affirmative and negative covenants as set forth in this Agreement rather than those set forth in the Prior Loan Contracts. In addition, any remaining obligation of RUS to make or approve additional Advances on promissory notes of the Borrower that have been previously delivered to RUS under Prior Loan Contracts shall, after the date hereof, be subject to the conditions set forth in this Agreement. In the event of any conflict between any provision set forth in a Prior Loan Contract and any provision in this Agreement, the requirements as set forth in this Agreement shall apply. Nothing in this section shall, however, eliminate or modify (i) any special condition, special affirmative covenant or special negative covenant, if any, set forth in any Prior Loan Contract or (ii) alter the repayment terms of any promissory notes which the Borrower has delivered under any Prior Loan Contract, except, in either case, as RUS may have specifically agreed to in writing.

Section 9.16. Authority of Representatives of RUS.

In the case of any consent, approval or waiver from RUS that is required under this Agreement or any other Loan Document, such consent, approval or waiver must be in writing and signed by an authorized RUS representative to be effective. As used in this section, "authorized RUS representative" means the Administrator of RUS, and also means a person to whom the Administrator has officially delegated specific or general authority to take the action in question.

Section 9.17. Term.

This Agreement shall remain in effect until one of the following two events has occurred:

- (a) The Borrower and RUS replace this Agreement with another written agreement; or
- (b) All of the Borrower's obligations under the Prior Loan Contracts and this Agreement have been discharged and paid.

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

BIG SANDY RURAL ELECTRIC COOPERATIVE
CORPORATION

by _____, Chairman

(Seal)

Attest:

Secretary

UNITED STATES OF AMERICA

by

Director - Northern
Regional Division
of the
Rural Utilities Service

RUS LOAN CONTRACT SCHEDULE 1

1. The purpose of this loan is to finance construction of distribution facilities and such other purposes that RUS may agree to in writing in order to carry out the purposes of the Act.
2. The Mortgage shall mean the Restated Mortgage and Security Agreement, dated as of November 1, 2004, among the Borrower, RUS and National Rural Utilities Cooperative Finance Corporation, as it may have been or shall be supplemented, amended, consolidated, or restated from time to time.
3. The governmental authority referred to in Section 2.1(c) is **Not Applicable**.
4. The date of the Borrower's financial information referred to in Section 2.1(h) is December 31, 2003.
5. The principal place of business and mailing address of the Borrower referred to in Section 2.1(i) is 504 11th Street, Paintsville, Kentucky 41240-1422.
6. All of the property of the Borrower is located in the Counties of Breathitt, Floyd, Johnson, Knott, Lawrence, Magoffin, Martin and Morgan in the Commonwealth of Kentucky.
7. There are no subsidiaries as referred to in Section 2.1(k).
8. The Contemporaneous Loan referred to in Section 5.3 is described as follows:

None.
9. The RUS Commitment referred to in the definitions means a loan in the principal amount of \$7,880,000.00, which is being made by RUS to Big Sandy Rural Electric Cooperative Corporation at the Treasury Rate of interest, pursuant to the Rural Electrification Act and RUS Regulations and 7 CFR § 1710.51(a)(1).
10. Amortization of Advance shall be based upon the level debt service method.
11. The SPECIAL conditions referred to in Section 4.2 are as follows:

None.
12. The additional AFFIRMATIVE covenants referred to in Section 5.22 are as follows:

None.
13. The additional NEGATIVE covenants referred to in Section 6.16 are as follows:

None.

14. The addresses of the parties referred to in Section 9.1. are as follows:

RUS

Rural Utilities Service
U.S. Department of Agriculture
Washington, DC 20250-1500
Attention: Administrator
Fax: (202) 720-0498

BORROWER

Big Sandy Rural Electric
Cooperative Corporation
504 11th Street
Paintsville, Kentucky 41240-1422
Fax: (606) 789-5454

15. The additional types of contract referred to in Section 6.5(f) are described as follows:

None.

16. The organizational identification number of the Borrower referred to in Section 2.1(m) is 0004187.

EXHIBIT A

FORM OF PROMISSORY NOTE

This Exhibit A of this Loan Contract consists of the following sample document:

- 1 RUS Treasury Rate Promissory Note

RUS Electric Treasury Rate Note
2 Year Principal Deferral

PROJECT DESIGNATION:

KENTUCKY 58-AM44 FLOYD

MORTGAGE NOTE

made by

BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION

to

UNITED STATES OF AMERICA

MORTGAGE NOTE

Paintsville, Kentucky
November 1, 2004

1. Amount. BIG SANDY RURAL ELECTRIC COOPERATIVE CORPORATION (hereinafter called the "Borrower"), a corporation organized and existing under the laws of the Commonwealth of Kentucky, for value received, promises to pay to the order of the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Utilities Service (hereinafter called the "Administrator"), at the United States Treasury, Washington, D.C., at the times and in the manner hereinafter provided, such sums as may be advanced from time to time, not to exceed Seven Million Eight Hundred Eighty Thousand Dollars and No Cents (\$7,880,000.00), with interest payable from the date of each advance ("Advance") on the unpaid principal balance remaining unpaid from time to time as hereinafter provided.
2. Interest Rate. The Borrower agrees to pay interest on the unpaid principal balance hereunder for each Advance on the dates and at a rate or rates per annum (the "Treasury Interest Rate") determined by the Government for that Advance in accordance with 7 CFR § 1710.51(a)(1), and as may be more particularly described in that certain Loan Contract as hereinafter defined.
3. Fund Advance Period. Funds will be advanced under this Note pursuant to a loan contract dated as of November 1, 2004, between the Borrower and the Government as it may be amended from time to time (the "Loan Contract"). The fund advance period for this Note begins on the date hereof and terminates four (4) years from the date of this note (the "Termination Date"). All funds not advanced prior to the Termination Date shall be automatically rescinded unless the Administrator extends the fund advance period in accordance with 7 CFR § 1714.56.
4. Payment on Advances made within two (2) years. Interest on principal advanced during the first two (2) years from the date hereof pursuant to the Loan Contract and remaining unpaid shall be payable monthly on the last day of each month (the "Monthly Payment Date") beginning on the Monthly Payment Date following the month of each Advance of principal for a period ending on a date two (2) years after the date hereof. The first interest payment on an Advance made during the first two years from the date hereof shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Thereafter, to and including a date thirty-five (35) years after the date hereof (the "Final Maturity Date"), the Borrower shall pay all accrued interest on each Advance on every Monthly Payment Date and shall repay the principal on each such Advance according to the amortization method specified in Paragraph 6 of this Note.
5. Payment on Advances made after two (2) years. For all Advances made two (2) years or more after the date hereof, the Borrower shall pay all accrued interest on the unpaid principal balance of the principal amount advanced pursuant to the Loan Contract two (2) or more years after the date hereof and remaining unpaid and shall repay the principal on each such Advance beginning on the Monthly Payment Date following the month of such Advance in accordance with the amortization method specified in Paragraph 6 of this Note. The first payment on an Advance made two (2) years or more after the date of this Note shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Payments under this Paragraph 5 shall be in addition to the payments on the Advances made pursuant to Paragraph 4. Regardless of the amortization method selected or anything in this Note to the contrary, all amounts outstanding under this Note remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.
6. Amortization Method. The Borrower has elected the "level debt service" amortization method for all of the

Advances under this Note --- during each Interest Rate Term (as defined in 7 CFR § 1710.2) for such Advance, the amount of each monthly payment of principal and interest shall (i) substantially equal the amount of every other monthly payment on such Advance during such Interest Rate Term, and (ii) be in an amount that will pay all principal and interest of such Advance no later than the Final Maturity Date.

7. No Call Provision. The Borrower has no option allowing it to prepay all, or any portion of, the outstanding balance on any Advance thereof except as provided in paragraph 10 of this Note.

8. No Interest Rate Cap. The interest rate on this Note is **NOT** subject to the seven percent (7%) maximum interest rate limitation presently imposed by said Section 305 and its related implementing regulations.

9. Application of Payments. Each payment made on this Note shall be applied first to the payment of interest on principal and then on account of principal. Any principal hereof advanced pursuant to the Loan Contract remaining unpaid, and interest thereon, shall become due and payable on the Final Maturity Date.

10. Prepayment. All, or a portion of the outstanding balance on any Advance may be prepaid on any Rollover Maturity Date (as defined in 7 CFR § 1710.2) pursuant to 7 CFR § 1714.6(a)(4). Such balance may also be prepaid pursuant to Section 306B of the Rural Electrification Act of 1936.

11. Security. This Note has been executed and delivered pursuant to and is secured by a certain mortgage and security agreement, dated as of November 1, 2004, made by and among the Borrower, the Government and National Rural Utilities Cooperative Finance Corporation, as the same may have been amended or supplemented by any supplemental mortgage and security agreement or supplemental mortgages and security agreements (said mortgage and security agreement and any such supplemental mortgage(s) and security agreement(s) being hereinafter collectively called the "Mortgage"), and is one of several notes (the "Notes") permitted to be executed and delivered by the Borrower pursuant to the Mortgage. The Mortgage provides that all Notes shall be equally and ratably secured thereby and reference is hereby made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security and the rights of the holders of Notes with respect thereto.

12. Default. In case of default by the Borrower, as provided in the Mortgage, all principal advanced pursuant to the Loan Contract and remaining unpaid on this Note and any other Notes at the time outstanding, and all interest thereon, may be declared or may become due and payable in the manner and with the effect provided in the Mortgage.

13. Noteholder. This Note evidences indebtedness created by a loan made by the Government under the NOFA and the Rural Electrification Act of 1936, as amended. If the Government shall at any time assign this Note and insure the payment hereof, the Borrower shall continue to make payments hereunder to the Government as collection agent for the insured holder, and, for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

14. Additional Notes. If the Government, at any time prior to the advance of the entire principal amount hereof on account of this Note, shall make a written endorsement hereon stating the amount advanced on account of the principal hereof, and shall notify the Borrower, in writing, of such endorsement, then the principal amount of this Note shall be deemed to be and shall become reduced to the amount specified in such endorsement, and the Borrower shall then execute and deliver to the Government one or more additional notes, in an amount or amounts

designated by the Government which in the aggregate shall be equal to the then unadvanced portion of the original principal amount of this Note, such additional notes to be dated the date of execution, to be in substantially the same form, and to bear the same interest rate, as this Note. The Borrower, upon the request therefor in writing by the Government, shall execute and deliver to the Government two or more notes, in substitution for this Note, in substantially the same form and bearing the same interest rate and date (except that any such substitute note which will evidence only an unadvanced portion of this Note may, at the discretion of the Government, be dated the date of execution), in an aggregate principal amount which shall be equal to the principal amount of this Note, but in such individual principal amounts as the Government shall request; provided that (i) all payments which shall have been made on account of the principal of and interest on this Note shall be credited on account of such substitute notes and (ii) the Government shall return this Note to the Borrower upon receipt and acceptance of such substitute notes.

15. References to Regulations or Notices. References in this Note to specific Government regulations or notices will apply to corresponding provisions in future versions of such regulations and notices.

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 attested by its officers thereunto duly authorized, all as of the day and year first above written.

BIG SANDY RURAL ELECTRIC COOPERATIVE
CORPORATION

SAMPLE - NOT FOR EXECUTION

by _____, Chairman

(Seal)

Attest:

Secretary

EXHIBIT B

EQUAL OPPORTUNITY CONTRACT PROVISIONS

During the performance of this contract, the contractor agrees as follows:

- (a) The contractor shall not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor shall take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided setting forth the provisions of this nondiscrimination clause.
- (b) The contractor shall, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants shall receive consideration for employment without regard to race, color, religion, sex or national origin.
- (c) The contractor shall send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided advising the said labor union or workers' representative of the contractor's commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (d) The contractor shall comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
- (e) The contractor shall furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and shall permit access to his books, records and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (f) In the event of the contractor's noncompliance with the non-discrimination clauses of this contract or with any of the said rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
- (g) The contractor shall include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246, dated September 24, 1965, so that such provisions shall be binding upon each subcontractor or vendor. The contractor shall take such action with respect to any subcontract or purchase order as the administering agency may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event a contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

EXHIBIT C-1

MANAGER'S CERTIFICATE REQUIRED UNDER LOAN
CONTRACT SECTION 6.14 FOR ADDITIONAL NOTES

On behalf of _____
Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under Section 2.01 of the Mortgage on or
about _____ meet all of the requirements of

_____ Date Note or Notes are to be Signed
Section 6.14 of the Loan Contract, namely:

- (a) The weighted average life of the loan evidenced by such Notes (_____ years) does not exceed the weighted average of the expected remaining useful lives of the assets being financed (_____ years) as evidenced by the attached calculation of said weighted average lives.
- (b) The principal of the loan evidenced by such Notes shall either be [check one and provide evidence in the second case:
 - (1) repaid based on level payments of principal and interest throughout the life of the loan, or
 - (2) amortized at a rate that shall yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest throughout the life of the loan as evidenced by the attached analysis of said weighted average lives.
- (c) The principal of the loan evidenced by such Notes has a maturity of not less than 5 years.

SAMPLE - NOT FOR EXECUTION

Signed

Date

Name

Title

Name and Address of Borrower:

EXHIBIT C-2

MANAGER'S CERTIFICATE REQUIRED UNDER LOAN CONTRACT
SECTION 6.14 FOR REFINANCING NOTES

On behalf of _____
Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under Section 2.02 of the Mortgage on or about _____ meet the requirement of Section 6.14

Date Note or Notes are to be Signed
of the Loan Contract that the weighted average life of such Notes is not greater than the weighted average remaining life of the Notes being refinanced, as evidenced by the attached calculation of said weighted average lives.

SAMPLE - NOT FOR EXECUTION

Signed

Date

Name

Title

Name and Address of Borrower:

Big Sandy Rural Electric Cooperative
Attorney General's Initial Request for Information
Case No. 2005-00125

Witness: Alan Zumstein

Item 3. No Taxes - Other in amount of \$17,172.

See Second Data Request of Commission Staff to Big Sandy RECC
Item 8.

Witness: Alan Zumstein

Item 4. DSC coverage ratio

- a. Section 5.4, part (b) addresses these ratios.

The average Coverage Ratios achieved by the Borrower in the 2 b years out of the 3 most recent calendar years must be not less than any of the following:

| | |
|---------|------|
| TIER = | 1.25 |
| DSC = | 1.25 |
| OTIER = | 1.1 |
| ODSC = | 1.1 |

All coverages must be achieved, so Big Sandy does consider the DSC to be an important factor.

- b. Input error only.
- c. Yes. Would be in range allowed.

Witness: Alan Zumstein

Item 5. Equity Capitalization

- a. Input error only.
The \$26,854,867 is correct amount.
- b. Yes.

Witness: Alan Zumstein

Item 6. Adjusted balance sheet

- a. Adjust 6 for accumulated postretirement benefits.
- b. Combination of increases in cash and accounts receivables as a result of additional revenues requested.
- c. Plant decrease see Exhibit S, page 3 of 4, for net effect of Amount capitalized total.

Increase in accumulated depreciation see Exhibit S, page 3 of 4,
for effect on net margins for Adjustment 3.

Big Sandy Rural Electric Cooperative
Attorney General's Initial Request for Information
Case No. 2005-00125

Witness: Alan Zumstein

Item 7. Customer Deposits

| | | |
|----|------|---------|
| a. | 2003 | 479,605 |
| | 2002 | 485,886 |
| | 2001 | 481,276 |
| | 2000 | 455,998 |
| | 1999 | 469,010 |

- b. Consumer deposits are a refundable hedge against consumers who do not pay an electric bill. The deposit is not based on construction cost or plant invested to serve consumers. The amount of deposit required is based on the estimated electric usage.

Big Sandy pays 6% interest to consumers on the amount of deposits

Big Sandy Rural Electric Cooperative
Attorney General's Initial Request for Information
Case No. 2005-00125

Witness: Alan Zumstein

Item 8. Rate base revenues

| | |
|------|------------|
| 2001 | 13,604,858 |
| 2002 | 14,302,319 |
| 2003 | 14,782,155 |

Witness: Alan Zumstein

Item 9. Other operating revenues

| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|-------|-------------|-------------|-------------|
| 450 | 273,856 | 266,922 | 277,907 |
| 451 | 93,130 | 94,359 | 96,244 |
| 454 | 78,481 | 118,375 | 88,788 |
| 456.1 | 30 | 60 | 125 |

Big Sandy Rural Electric Cooperative
Attorney General's Initial Request for Information
Case No. 2005-00125

Witness: Alan Zumstein

Item 10. Other operating rent revenues

- a. The 44,521 is the correct amount.
- b. CATV attachments are included in Account 454

| | | |
|------|--------|----------------------------------|
| 2001 | 25,340 | |
| 2002 | 64,821 | One cable company behind by 1 ye |
| 2003 | 35,008 | |
| 2004 | 35,289 | |

Joint use telephone attachements

| | |
|------|--------|
| 2001 | 53,141 |
| 2002 | 53,554 |
| 2003 | 53,780 |
| 2004 | 54,126 |

Big Sandy Rural Electric Cooperative
Attorney General's Initial Request for Information
Case No. 2005-00125

Witness: Alan Zumstein

Item 11. Non recurring charges

See Exhibit 13 of Application

Witness: Alan Zumstein

Item 12. Property taxes paid

| | |
|------|---------|
| 2001 | 204,734 |
| 2002 | 207,011 |
| 2003 | 209,910 |

Witness: Alan Zumstein

Item 13. Allocation of payroll taxes

See Exhibit 22, page 1 of 2 of Application. Column for payroll tax alloca

Witness: Alan Zumstein

Item 14. Other interest expense

a. Interest on consumer deposits of \$29,615.

b.

| | Consumer Deposits | Short Term Borrowing |
|------|----------------------|-------------------------|
| 2001 | 28,790 | 20,771 |
| 2002 | 29,441 | 9,037 |
| 2003 | 29,317 | 5,208 |

c. 6%

Witness: Alan Zumstein

Item 15. Interest income

| | | | | |
|----|-----------------------|-------------|-------------|-------------|
| a. | CFC CTC's | 21,749 | | |
| | Bank accounts | 22,380 | | |
| | KAEC Detox cert | 81 | | |
| | KAEC Debenture | 45 | | |
| | RUS cushion of credit | 55,879 | | |
| b. | | <u>2001</u> | <u>2002</u> | <u>2003</u> |
| | CFC CTC's | 21,286 | 21,301 | 21,300 |
| | Bank accounts | 17,247 | 44,289 | 34,186 |
| | KAEC Detox cert | 209 | 98 | 63 |
| | KAEC Debenture | 45 | 45 | 45 |
| | RUS cushion of credit | - | - | 16,243 |

Witness: Alan Zumstein

Item 16. Non operating margins

a. Loss on disposal of vehicles 6,347

It is expected to be a recurring event to trade and dispose of vehicle on an annual basis. The amount of loss will fluctuate based on the number and cost of vehicles traded in any particular year.

b. See Second Data Request of Commission Staff to Big Sandy RECC Item 11, b. Account 421.10, Gain on disposition.

c.

| | | |
|------|-------|--------------------|
| 2001 | 0 | |
| 2002 | 5,000 | sold land for gain |

Witness: Alan Zumstein

Item 17. Capital credits

a. Allocations from associated organizations on a patronage basis.
These are allocations not from the G&T.

| | | |
|----|------|--------|
| b. | 2003 | 21,900 |
| | 2002 | 17,596 |
| | 2001 | 41,256 |
| | 2000 | 37,837 |
| | 1999 | 35,818 |

c. There is none.

Witness: Alan Zumstein

Item 18. O&M expenses

| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2003/</u> <u>2002</u> | <u>2002/</u> <u>2001</u> | <u>Explanations</u> |
|-----------------------------------|----------------|----------------|----------------|-----------------------------|-----------------------------|--|
| Distribution - Operations | | | | | | |
| 580 Super & Eng | 74,836 | 62,036 | 60,201 | 21% | 3% | More labor allocated |
| 583 O/H Line | 152,731 | 151,857 | 124,769 | 1% | 22% | More special equipment in 02 |
| 586 Meter | 239,844 | 253,752 | 269,837 | -5% | -6% | |
| 587 Constr Install Eq | 38,992 | 41,246 | 29,340 | -5% | 41% | Allocation of property taxes |
| 588 Misc Dist Eq | 23,666 | 26,764 | 26,045 | -12% | 3% | |
| 589 Rents | 0 | 324 | 432 | -100% | -25% | |
| | <u>530,069</u> | <u>535,978</u> | <u>510,625</u> | <u>-1%</u> | <u>5%</u> | |
| Distribution - Maintenance | | | | | | |
| 590 Supervision | 47,466 | 39,226 | 58,548 | 21% | -33% | 2002 did not have supervisor for full year |
| 593 Maintenance | 272,342 | 282,258 | 200,625 | -4% | 41% | Accrue pole inspection |
| 593 ROW maintenance | 250,541 | 191,377 | 151,507 | 31% | 26% | More aggressive right of way clearing |
| 593 ROW contractor | 205,856 | 137,020 | 110,826 | 50% | 24% | 2001 had \$20,000 credit for accrued pole inspection c |
| 595 Transformers | 25,891 | 34,205 | 20,935 | -24% | 63% | 2002 had additional PCB costs |
| 597 Meters | 463 | 1,459 | 5,812 | -68% | -75% | |
| 598 Misc Distr Plant | 111,313 | 84,568 | 68,894 | 32% | 23% | More labor being recorded. |
| | <u>913,871</u> | <u>770,113</u> | <u>617,147</u> | <u>19%</u> | <u>25%</u> | |
| Consumer Accounts | | | | | | |
| 902 Meter Read Exp | 108,246 | 103,667 | 98,527 | 4% | 5% | |
| 903 Consumer Collection | 405,428 | 357,700 | 338,968 | 13% | 6% | |
| 903 Cash short/over | 989 | 592 | 202 | 67% | 193% | |
| 904 Uncollectible A/c | 60,000 | 60,000 | 42,000 | 0% | 43% | Increase accrual. |
| | <u>574,662</u> | <u>521,959</u> | <u>479,697</u> | <u>10%</u> | <u>9%</u> | |
| Sales | | | | | | |
| 908 Consumer Assistance | 132,451 | 134,729 | 94,005 | -2% | 43% | Hired employee in 2002. |
| 909 Informational | 9,803 | 11,688 | 14,339 | -16% | -18% | |
| 913 Advertising | 937 | 4,174 | 3,459 | -78% | 21% | |
| | <u>10,740</u> | <u>15,862</u> | <u>17,798</u> | <u>-32%</u> | <u>-11%</u> | |

page 2 of 2

| Administrative & General | | | | | | | | | |
|--------------------------|-----------------------|------------------|----------------|----------------|------------|-----------|--|--|--|
| 920 | Office Salaries | 551,898 | 429,910 | 426,816 | 28% | 1% | Two General Managers in 2003 where one retired and other in training | | |
| 921 | Office Supplies | 109,582 | 102,467 | 102,876 | 7% | -0% | | | |
| 923 | Outside Services | 57,674 | 54,234 | 41,516 | 6% | 31% | Started using attorney for collections | | |
| 925 | Injuries & Damages | 33,782 | 35,173 | 38,251 | -4% | -8% | | | |
| 926 | Emp benefits | 6,086 | 5,003 | 26 | 22% | 19414% | | | |
| 928 | Regulatory Commission | 0 | 8,080 | 51 | -100% | 15743% | | | |
| 929 | Duplicate Charges | (779) | (850) | (951) | -8% | -11% | | | |
| 930 | Advertising | 980 | 1,261 | 913 | -22% | 38% | | | |
| 930 | Directors | 101,381 | 79,666 | 79,249 | 27% | 1% | Additional director training | | |
| 930 | Miscellaneous | 156,905 | 138,906 | 109,398 | 13% | 27% | Property tax accrual | | |
| 931 | Rents | 13,301 | 18,094 | 15,603 | -26% | 16% | | | |
| 935 | Misc General Plant | 60,438 | 56,270 | 50,542 | 7% | 11% | | | |
| | | <u>1,091,248</u> | <u>928,215</u> | <u>864,290</u> | <u>18%</u> | <u>7%</u> | | | |

Big Sandy Rural Electric Cooperative
Attorney General's Initial Request for Information
Case No. 2005-00125

Witness: David Estep

Item 19. Operating Budget

Copy of the 2005 Budget is attached.

| | JULY BUDGET 2005 | AUG BUDGET 2005 | SEPT BUDGET 2005 | OCT BUDGET 2005 | NOV BUDGET 2005 | DEC BUDGET 2005 | TOTAL 2005 |
|------------------------|------------------------|-----------------------|------------------------|-----------------------|-----------------------|-----------------------|---------------|
| TOTAL REVENUE | 1,272,806 | 1,203,485 | 1,176,020 | 1,223,267 | 1,480,455 | 1,847,078 | 16,473,866 |
| COST OF POWER | 908,137 | 884,640 | 780,193 | 746,028 | 906,341 | 1,171,234 | 11,197,220 |
| OPERATIONS | 44,644 | 44,644 | 44,644 | 44,644 | 44,644 | 44,644 | 535,730 |
| MAINTENANCE | 84,185 | 84,185 | 84,185 | 84,185 | 84,185 | 84,185 | 1,010,220 |
| OFFICE SERVICES | 38,142 | 38,142 | 38,142 | 38,142 | 38,142 | 38,142 | 457,698 |
| UNCOLLECTABLE ACCOUNTS | 7,000 | 7,000 | 7,000 | 7,000 | 7,000 | 7,000 | 84,000 |
| MEMBER SERVICES | 9,312 | 9,312 | 9,312 | 9,312 | 9,312 | 9,312 | 111,745 |
| ADMIN & GENERAL | 90,174 | 90,174 | 90,174 | 90,174 | 90,174 | 90,174 | 1,082,093 |
| DEPRECIATION | 100,170 | 100,170 | 100,170 | 100,170 | 100,170 | 100,170 | 1,202,037 |
| TAXES | 1,458 | 1,458 | 1,458 | 1,458 | 1,458 | 1,458 | 17,500 |
| INTEREST - LTD | 52,417 | 52,417 | 52,417 | 52,417 | 52,417 | 52,417 | 629,000 |
| OTHER INTEREST | 2,425 | 2,425 | 2,425 | 2,425 | 2,425 | 2,425 | 29,100 |
| OTHER DEDUCTIONS | 967 | 967 | 967 | 967 | 967 | 967 | 11,600 |
| TOTAL COST OF SERVICE | 1,339,031 | 1,315,534 | 1,211,087 | 1,176,922 | 1,337,235 | 1,602,128 | 16,367,943 |
| OPERATING MARGINS | (66,225) | (112,049) | (35,067) | 46,345 | 143,220 | 244,950 | 105,923 |
| INTEREST REVENUE | 4,167 | 4,167 | 4,167 | 4,167 | 4,167 | 4,167 | 50,000 |
| TOTAL MARGINS | (62,058) | (107,882) | (30,900) | 50,512 | 147,387 | 249,117 | 155,923 |
| TIER | (0.18) | (1.06) | 0.41 | 1.96 | 3.81 | 5.75 | 1.25 |

| | JAN BUDGET 2005 | FEB BUDGET 2005 | MAR BUDGET 2005 | APR BUDGET 2005 | MAY BUDGET 2005 | JUNE BUDGET 2005 |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| TOTAL REVENUE | 1,807,787 | 1,571,640 | 1,396,322 | 1,138,429 | 1,162,188 | 1,194,393 |
| COST OF POWER | 1,306,263 | 1,108,806 | 980,375 | 789,832 | 795,513 | 819,858 |
| OPERATIONS | 44,644 | 44,644 | 44,644 | 44,644 | 44,644 | 44,644 |
| MAINTENANCE | 84,185 | 84,185 | 84,185 | 84,185 | 84,185 | 84,185 |
| OFFICE SERVICES | 38,142 | 38,142 | 38,142 | 38,142 | 38,142 | 38,142 |
| UNCOLLECTABLE ACCOUNTS | 7,000 | 7,000 | 7,000 | 7,000 | 7,000 | 7,000 |
| MEMBER SERVICES | 9,312 | 9,312 | 9,312 | 9,312 | 9,312 | 9,312 |
| ADMIN & GENERAL | 90,174 | 90,174 | 90,174 | 90,174 | 90,174 | 90,174 |
| DEPRECIATION | 100,170 | 100,170 | 100,170 | 100,170 | 100,170 | 100,170 |
| TAXES | 1,458 | 1,458 | 1,458 | 1,458 | 1,458 | 1,458 |
| INTEREST - LTD | 52,417 | 52,417 | 52,417 | 52,417 | 52,417 | 52,417 |
| OTHER INTEREST | 2,425 | 2,425 | 2,425 | 2,425 | 2,425 | 2,425 |
| OTHER DEDUCTIONS | 967 | 967 | 967 | 967 | 967 | 967 |
| TOTAL COST OF SERVICE | 1,737,157 | 1,539,700 | 1,411,269 | 1,220,726 | 1,226,407 | 1,250,752 |
| OPERATING MARGINS | 70,630 | 31,940 | (14,947) | (82,297) | (64,219) | (56,359) |
| INTEREST REVENUE | 4,167 | 4,167 | 4,167 | 4,167 | 4,167 | 4,167 |
| TOTAL MARGINS | 74,797 | 36,107 | (10,780) | (78,130) | (60,052) | (52,192) |
| TIER | 2.43 | 1.69 | 0.79 | (0.49) | (0.15) | 0.00 |

**BIG SANDY RECC
2005
OPERATING BUDGET**

| <u>REVENUE</u> | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|-----------------------|-------|------------------------|------------------------|
| A-1 RESIDENTIAL | 440.1 | 10,951,447 | 11,347,526 |
| A-2 SMALL COMMERCIAL | 442.1 | 1,008,984 | 1,066,566 |
| LARGE COMMERCIAL | 442.2 | 3,670,021 | 3,559,774 |
| TOTAL ELECTRIC SALES | | 15,630,452 | 15,973,866 |
| FORFEITED DISCOUNTS | 450.0 | 288,000 | 300,000 |
| MISC. SERVICE REVENUE | 451.0 | 100,000 | 105,000 |
| POLE RENTALS | 454.0 | 95,000 | 95,000 |
| OTHER REVENUES | 456.0 | 0 | 0 |
| TOTAL OTHER REVENUES | | 483,000 | 500,000 |
| INTEREST REVENUE | 419.0 | 50,000 | 50,000 |
| TOTAL REVENUE | | 16,163,452 | 16,523,866 |

| | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|--|-------|------------------------|------------------------|
| <u>ADMINISTRATIVE & GENERAL</u> | | | |
| CHASED POWER | 555.0 | 11,157,302 | 11,197,219 |
| DEPRECIATION | | | |
| DISTRIBUTION PLANT | 403.6 | 1,021,602 | 1,134,559 |
| GENERAL PLANT | 403.7 | 57,850 | 67,478 |
| TOTAL | | 1,079,452 | 1,202,037 |
| TAXES | | | |
| PROPERTY | 408.1 | 0 | 0 |
| FUTA | 408.2 | 0 | 0 |
| SUTA | 408.4 | 0 | 0 |
| FICA | 408.3 | 0 | 0 |
| PSC ASSESSMENT | 408.7 | 18,500 | 17,500 |
| TOTAL | | 18,500 | 17,500 |
| DONATIONS | | | |
| | 426.1 | 10,000 | 11,600 |
| INTEREST LONG TERM DEBT | | | |
| REA | 427.1 | 185,000 | 95,000 |
| FFB | 427.1 | 0 | 194,000 |
| CFC | 427.2 | 385,000 | 340,000 |
| TOTAL | | 570,000 | 629,000 |
| OTHER INTEREST EXPENSE | | | |
| CONSUMER DEPOSITS | 431.0 | 28,200 | 29,100 |
| SHORT TERM BORROWING | 431.1 | 2,500 | 0 |
| TOTAL | | 30,700 | 29,100 |
| ADMIN & GENERAL | | | |
| WAGES | 920.0 | 353,640 | 358,000 |
| UTILITIES | 921.0 | 27,500 | 26,800 |
| SUPPLIES | 921.0 | 22,100 | 12,000 |
| MEETINGS | 921.0 | 9,000 | 15,000 |
| TRANSPORTATION | 921.0 | 21,000 | 23,000 |
| POSTAGE | 921.0 | 2,664 | 2,800 |
| MISCELLANEOUS | 921.0 | 2,400 | 2,400 |
| DATA PROCESSING | 921.0 | 58,500 | 34,600 |
| INSURANCE SPREAD | 921.0 | 1,763 | 1,850 |
| PROPERTY TAX SPREAD | 921.0 | 0 | 0 |
| OVERHEAD SPREAD | 920.0 | 228,666 | 186,976 |
| TOTAL | | 727,233 | 663,426 |

| | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|---------------------------|--------|------------------------|------------------------|
| SIDE SERVICES | | | |
| LEGAL SERVICES | 923.0 | 12,000 | 8,000 |
| LEGAL BENEFITS | 923.0 | 33,063 | 10,110 |
| LEGAL MEETINGS & EXP | 923.0 | 3,000 | 3,000 |
| FINANCIAL AUDIT | 923.0 | 6,800 | 6,800 |
| CONSULTANTS - ENGINEERING | 923.0 | 0 | 5,000 |
| CONSULTANTS - FINANCIAL | 923.0 | 4,000 | 14,000 |
| CONSULTANTS - LEGAL | 923.0 | 0 | 0 |
| TOTAL | | 58,863 | 46,910 |
| INSURANCE | | | |
| DIR & MANAGER LIABILITY | 925.0 | 0 | 0 |
| PROPERTY & LIABILITY | 925.0 | 34,780 | 36,000 |
| FLOOD | 925.0 | 0 | 0 |
| WORKMAN'S COMP | 925.0 | 0 | 0 |
| TOTAL | | 34,780 | 36,000 |
| DIRECTORS | | | |
| MONTHLY MEETINGS | 930.11 | 25,200 | 25,200 |
| ANNUAL/SPECIAL MEETINGS | 930.11 | 0 | 4,200 |
| MILEAGE | 930.12 | 2,000 | 2,000 |
| TRAVEL PER DIEM | 930.13 | 16,000 | 20,000 |
| TRAVEL EXPENSES | 930.13 | 14,000 | 27,000 |
| INSURANCE | 930.13 | 6,285 | 10,790 |
| MISC / D & O INS. | 930.13 | 11,030 | 9,945 |
| TOTAL | | 74,515 | 99,135 |

| | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|------------------------------|-------|------------------------|------------------------|
| DUES | | | |
| NRECA | 930.2 | 14,300 | 14,800 |
| KAEC | 930.2 | 27,000 | 26,500 |
| INSURANCE & PROP. TAX SPREAD | 930.2 | 49,653 | 51,000 |
| TOTAL | | 90,953 | 92,300 |
| MISCELLANEOUS | | | |
| KENTUCKY LIVING | 930.4 | 57,539 | 57,736 |
| ANNUAL MEETING | 930.4 | 43,905 | 25,330 |
| TRAINING | 930.4 | 2,400 | 5,000 |
| WEB SITE | 930.4 | 1,200 | 1,200 |
| DATA PROCESSING CONV | 930.4 | 1,200 | 2,400 |
| SAFETY ACCRED | 930.4 | 0 | 10,000 |
| TOTAL | | 106,244 | 101,666 |
| RENTAL EXPENSE | 931.0 | 12,000 | 12,000 |
| MAINTENANCE | | | |
| OFFICE AREA | 935.0 | 2,400 | 6,000 |
| FURN & OFFICE EQUIP. | 935.0 | 1,200 | 2,000 |
| TOOLS | 935.0 | 600 | 1,200 |
| SHOP EQUIP | 935.0 | 600 | 2,400 |
| LAB EQUIP | 935.0 | 600 | 2,400 |
| COMMUNICATION EQUIP. | 935.0 | 1,200 | 3,600 |
| UTILITIES | 935.0 | 2,500 | 2,400 |
| WAGES | 935.0 | 3,600 | 7,000 |
| INSURANCE SPREAD | 935.0 | 0 | 0 |
| OVERHEAD SPREAD | 935.0 | 2,328 | 3,656 |
| TOTAL | | 15,028 | 30,656 |
| UNCOLLECTABLE ACCOUNTS | 904.0 | 72,000 | 84,000 |
| RAND TOTAL | | 14,057,570 | 14,252,549 |

| | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|-------------------------------|--------|------------------------|------------------------|
| <u>OFFICE SERVICES</u> | | | |
| RESUMER BILLING | | | |
| WAGES | 903 0 | 187,950 | 155,500 |
| PRINTING | 903 0 | 0 | 21,000 |
| POSTAGE | 903 0 | 48,065 | 48,500 |
| TRANSPORTATION | 903 0 | 6,500 | 7,500 |
| UTILITIES | 903 0 | 6,800 | 7,650 |
| SUPPLIES | 903 0 | 2,400 | 9,000 |
| MEETINGS | 903 0 | 1,200 | 1,200 |
| MISCELLANEOUS | 903 0 | 600 | 1,200 |
| OVERHEAD SPREAD | 903 0 | 121,530 | 98,289 |
| TOTAL | | 375,045 | 349,839 |
| | | | |
| PRESTONSBURG OFFICE | | | |
| WAGES | 903 00 | 0 | 74,000 |
| UTILITIES | 903 00 | 0 | 1,200 |
| SUPPLIES | 903 00 | 0 | 5,000 |
| MISC. | 903 00 | 0 | 2,800 |
| OVERHEAD SPREAD | 903 00 | 0 | 21,574 |
| TOTAL | | 0 | 104,574 |
| | | | |
| METER READING | | | |
| WAGES | 902 0 | 49,042 | 61,000 |
| SUPPLIES | 902 0 | 0 | 0 |
| TRANSPORTATION | 902 0 | 12,300 | 15,000 |
| POSTAGE | 902 0 | 0 | 0 |
| OVERHEAD SPREAD | 902 0 | 31,711 | 31,859 |
| TOTAL | | 93,053 | 107,859 |
| | | | |
| GRAND TOTAL | | 468,098 | 457,698 |

| | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|--|-------|------------------------|------------------------|
| <u>MEM. SERVICE & PUBLIC REL.</u> | | | |
| ERAL ACTIVITIES | | | |
| KAEC | 908 0 | 8,500 | 8,500 |
| MEM. SVC & PUBLIC REL. | 908 0 | 28,142 | 34,320 |
| MEETINGS | 908 0 | 6,000 | 6,000 |
| UTILITIES | 908 0 | 600 | 400 |
| TRANSPORTATION | 908 0 | 6,500 | 9,500 |
| MISCELLANEOUS | 908 0 | 2,400 | 3,900 |
| OVERHEAD SPREAD | 908 0 | 18,197 | 17,925 |
| TOTAL | | 70,339 | 80,545 |
| MARKETING | | | |
| RADIO | 909 0 | 16,000 | 16,000 |
| NEWSPAPER | 909 0 | 300 | 1,200 |
| INCENTIVES | 909 0 | 3,600 | 6,000 |
| MISCELLANEOUS | 909 0 | 3,000 | 8,000 |
| TOTAL | | 22,900 | 31,200 |
| GRAND TOTAL | | 93,239 | 111,745 |

| | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|----------------------------------|-------|------------------------|------------------------|
| <u>DIST. - OPERATIONS</u> | | | |
| ERVISION | 580.0 | | |
| WAGES | | 39,624 | 37,050 |
| MEETINGS | | 120 | 120 |
| TRANSPORTATION | | 6,600 | 6,600 |
| UTILITIES | | 1,000 | 1,400 |
| OVERHEAD SPREAD | | 25,621 | 19,350 |
| TOTAL | | 72,965 | 64,520 |
| OVERHEAD LINES | 583.0 | | |
| WAGES | | 5,131 | 5,100 |
| CONTRACT LABOR | | 12,000 | 12,000 |
| TRANSPORTATION | | 2,000 | 1,000 |
| MISCELLANEOUS | | 1,000 | 1,000 |
| INSTALLATION COST | | (38,000) | (35,000) |
| HELICOPTER INSPECTION | | 0 | 0 |
| PROP. TAX SPREAD | | 146,771 | 148,000 |
| OVERHEAD SPREAD | | 3,318 | 2,664 |
| TOTAL | | 132,220 | 134,764 |
| METERS | 586.0 | | |
| WAGES | | 134,824 | 139,000 |
| TRANSPORTATION | | 30,000 | 29,000 |
| SUPPLIES | | 3,600 | 3,600 |
| INSTALLATION COST | | (27,000) | (75,000) |
| PROP. TAX SPREAD | | 7,625 | 7,800 |
| OVERHEAD SPREAD | | 87,178 | 72,597 |
| TOTAL | | 236,227 | 176,997 |
| TWACS | 586.1 | | |
| WAGES | | 0 | 37,440 |
| TRANSPORTATION | | 0 | 2,000 |
| SUPPLIES | | 0 | 4,000 |
| OVERHEAD SPREAD | | 0 | 19,554 |
| TOTAL | | | 62,994 |
| CONSUMER INSTALLATIONS | 587.0 | | |
| WAGES | | 2,400 | 2,400 |
| TRANSPORTATION | | 700 | 800 |
| SUPPLIES | | 600 | 600 |
| PROP. TAX SPREAD | | 30,190 | 31,000 |
| OVERHEAD SPREAD | | 1,552 | 1,253 |
| TOTAL | | 35,442 | 36,053 |
| MISC DIST EXPENSES | 588. | | |
| WAGES | | 10,500 | 36,000 |
| OVERHEAD SPREAD | | 6,789 | 18,802 |
| SUPPLIES / OTHER | | 4,000 | 5,000 |
| TOTAL | | 21,289 | 59,802 |
| RENTAL EQUIPMENT | 589.0 | 600 | 600 |
| GRAND TOTAL | | 498,743 | 535,730 |

| | | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|-----------------------------------|-------|------------------------|------------------------|
| <u>DIST. - MAINTENANCE</u> | | | |
| ERVISION | 590.0 | | |
| WAGES | | 32,838 | 33,000 |
| MEETINGS | | 0 | 0 |
| TRANSPORTATION | | 4,900 | 7,000 |
| MISCELLANEOUS | | 0 | 0 |
| UTILITIES | | 1,100 | 1,000 |
| OVERHEAD SPREAD | | 21,233 | 17,235 |
| TOTAL | | 60,071 | 58,235 |
| OVERHEAD LINES | 593.0 | | |
| WAGES | | 96,498 | 110,000 |
| CONTRACT LABOR | | 12,000 | 12,000 |
| MATERIAL & SUPPLIES | | 6,000 | 6,000 |
| TRANSPORTATION | | 20,500 | 30,000 |
| OCR/REGULATOR REPAIR | | 2,400 | 10,000 |
| STORES | | 3,500 | 3,500 |
| POLE INSPECTION | | 25,000 | 25,000 |
| UTILITIES | | 4,900 | 7,500 |
| OVERHEAD SPREAD | | 62,396 | 57,451 |
| TOTAL | | 233,194 | 261,451 |
| RIGHT OF WAY | 593.1 | | |
| WAGES | | 101,233 | 92,250 |
| CONTRACTOR (130 MILES) | | 300,000 | 416,000 |
| SUPPLIES | | 3,600 | 5,000 |
| TRANSPORTATION | | 27,000 | 20,000 |
| GROUND SPRAYING (100 ACRE) | | 65,000 | 65,000 |
| OVERHEAD SPREAD | | 65,458 | 20,749 |
| TOTAL | | 562,291 | 618,999 |
| TRANSFORMERS | 595.0 | | |
| WAGES | | 9,633 | 11,000 |
| SUPPLIES | | 2,000 | 2,000 |
| TRANSPORTATION | | 1,800 | 2,000 |
| REPAIR - TRANSFORMERS/OCR'S | | 3,000 | 3,000 |
| OVERHEAD SPREAD | | 6,229 | 5,745 |
| TOTAL | | 22,662 | 23,745 |
| METERS | 597.0 | | |
| WAGES | | 1,000 | 1,000 |
| TRANSPORTATION | | 0 | 0 |
| SUPPLIES | | 300 | 300 |
| OVERHEAD SPREAD | | 647 | 522 |
| TOTAL | | 1,947 | 1,822 |
| YARD LIGHTS | 598.0 | | |
| WAGES | | 50,110 | 21,000 |
| TRANSPORTATION | | 8,000 | 6,500 |
| SUPPLIES | | 10,000 | 7,500 |
| OVERHEAD SPREAD | | 32,401 | 10,968 |
| TOTAL | | 100,511 | 45,968 |
| GRAND TOTAL | | 980,676 | 1,010,220 |

| <u>SUMMARY</u> | 2004 BUDGET 2004 | 2005 BUDGET 2005 |
|------------------------|------------------------|------------------------|
| TOTAL REVENUE | 16,113,452 | 16,473,866 |
| COST OF POWER | 11,157,302 | 11,197,219 |
| OPERATIONS | 498,743 | 535,730 |
| MAINTENANCE | 980,676 | 1,010,220 |
| OFFICE SERVICES | 468,098 | 457,698 |
| UNCOLLECTABLE ACCOUNTS | 72,000 | 84,000 |
| MEMBER SERVICES | 93,239 | 111,745 |
| ADMIN & GENERAL | 1,119,616 | 1,082,093 |
| DEPRECIATION | 1,079,452 | 1,202,037 |
| TAXES | 18,500 | 17,500 |
| INTEREST - LTD | 570,000 | 629,000 |
| OTHER INTEREST | 30,700 | 29,100 |
| OTHER DEDUCTIONS | 10,000 | 11,600 |
| TOTAL COST OF SERVICE | 16,098,326 | 16,367,942 |
| OPERATING MARGINS | 15,126 | 105,924 |
| INTEREST REVENUE | 50,000 | 50,000 |
| TOTAL MARGINS | 65,126 | 155,924 |
| TIER | 1 11 | 1 25 |

