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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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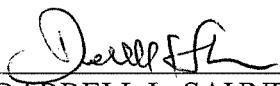
In the Matter of:

ADJUSTMENT OF RATES OF SOUTH )  
KENTUCKY RURAL ELECTRIC )  
COOPERATIVE CORPORATION ) CASE NO. 2005-00450  
)

NOTICE OF FILING OF EQUITY MANAGEMENT PLAN

Comes the Applicant, South Kentucky Rural Electric Cooperative Corporation, and tenders herewith for filing its Board Policy "J" adopted January 11, 2007. This document is filed pursuant to the Commission's Order entered August 31, 2006 providing that "South Kentucky shall file a copy of the Equity Management Plan with the Commission within ten (10) days of its adoption by the Board of Directors".

Dated: this 12<sup>th</sup> day of January, 2007.

  
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ATTORNEY FOR SOUTH KENTUCKY RURAL  
ELECTRIC COOPERATIVE CORPORATION

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing was this 12<sup>th</sup> day of January, 2007 deposited in the regular United States mail, all postage prepaid and addressed for delivery to the following:

1. Ms. Anita Mitchell, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615.

2. Ms. Elizabeth E. Blackford, Assistant Attorney General, Office of the Attorney General, Utility and Rate Intervention Division, 1024 Capital Center Drive, Suite 200, Frankfort, KY 40601-8204.

Original to: Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615.

  
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ATTORNEY FOR SOUTH KENTUCKY RURAL  
ELECTRIC COOPERATIVE CORPORATION

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

EQUITY MANAGEMENT PLAN

BOARD POLICY "J"

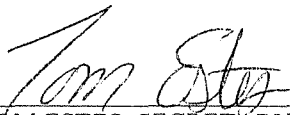
OBJECTIVE

- A. In the event of dissolution or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis.
- B. The Cooperative will make annual payments of capital credits on the capital of the Cooperative, provided that the following conditions are met:
  - a. The Board of Directors shall determine the financial condition of the Cooperative will not be impaired, and that satisfactory progress is being made toward the Cooperative's Equity Management goals as set forth below:
  - b. The Cooperative's Equity Management goals shall be to operate the Cooperative's business with annual revenue and expense levels so as to:
    - 1. Maintain a Times Interest Earned Ratio (TIER) of 1.5x to 2.0x.
    - 2. Achieve in proper time and maintain an Equity Ratio (equity as a percent of total capitalization) at or near the optimum level that is determined each year from calculations using the following variables:
      - a. The average compound rate of growth for the Cooperative's total capital structure;
      - b. The blended cost of interest on the Cooperative's outstanding long term debt;
      - c. The repayment of capital credits to the Cooperative's members based on a cycle that will pay annual credit equal to or less than five percent (5%) of the total of member's equity at calendar year end; and
      - d. The TIER level as stated in paragraph "1" above.
    - 3. Expend all efforts to achieve and maintain a rate of return upon the total capital structure of the Cooperative equal to that necessary to attain the stated TIER goal and optimum equity goal;
    - 4. Achieve an equity capitalization target range of thirty percent (30%) to forty percent (40%), not including Generation and Transmission Cooperative Credits (GTCC's).
  - c. All payments of general and special capital credit refunds will be authorized at least annually by the Board of Directors, and:

1. Will be in total amounts not exceeding those amounts permitted by the mortgage requirements of South Kentucky's lenders;
  2. Will be in such large amounts as approved by RUS and CFC pursuant to a request made by the Cooperative's Board of Directors, and supported by an equity management plan which indicates satisfactory progress toward the Cooperative's equity management goals;
  3. Capital credit refunds to the estates of deceased will continue to be paid in full or discounted, at the discretion of the Board of Directors, if all loan requirements of South Kentucky's lenders are being met.
- d. The Discretionary powers of such capital credit repayments shall remain with the Board of Directors of South Kentucky Rural Electric Cooperative as Stated within the bylaws, and this policy shall not diminish that right.

APPROVED:

1-11-07  
DATE

  
TOM ESTES, SECRETARY