

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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AUG 20 2007

PUBLIC SERVICE  
COMMISSION

In the Matter of:

APPLICATION SOUTH KENTUCKY )  
RURAL ELECTRIC COOPERATIVE )  
CORPORATION FOR APPROVAL TO )  
PURCHASE THE FIXED ASSETS OF )  
THE MONTICELLO ELECTRIC )  
PLANT BOARD, MONTICELLO, KY )

CASE NO. 2007-00374

PETITION TO PROTECT AND CLASSIFY AS CONFIDENTIAL THE  
APPLICATION FOR APPROVAL TO PURCHASE FIXED ASSETS  
OF THE MONTICELLO ELECTRIC PLANT BOARD

Pursuant to 807 KAR 5:001, Section 7, and KRS 61.878, South Kentucky Rural Electric Cooperative Corporation ("SKRECC") petitions the Public Service Commission (the "Commission") to classify as confidential its Application For Approval to Purchase the Fixed Assets of Monticello Electric Plant Board in Monticello, Kentucky and all exhibits submitted therewith (the "Application") as submitted to the Commission of even date. In support of which, SKRECC states as follows:

1. SKRECC is a corporation which has submitted an Application to the Commission in support of its request for approval to purchase the fixed assets of the Monticello Electric Plant Board ("MEPB"). In support of its Application, SKRECC has provided as in exhibits to the Application its financial history and current debt structure, the projected cost of purchasing the assets of MEPB, including appraisals of third parties providing the value of the assets sought to be purchased, the projected cost to integrate the assets into its electric distribution system so to provide electric service to the existing MEPB customers, the specific amount and timing of capital investment, copies of financial statements and a detailed description its productivity,

efficiency and financial stability.

2. In addition to approval of the purchase generally, SKRECC requests the Commission's approval of its application for a loan to fund the purchase of the assets and the integration of same into its electric distribution system.

3. The Application, in its entirety, is exempt from disclosure pursuant to the Kentucky Open Records Act, KRS 61.870 et seq. as records provided to the Commission which are generally recognized as confidential or proprietary which if openly disclosed would permit an unfair commercial advantage to SKRECC's competitors pursuant to KRS 61.878(1)(c)(1). See Hoy v. Kentucky Industrial Revitalization Authority, 907 SW2d 766 (Ky. 1995) involving a financial history of a corporation, the projected cost of the project involved, the specific amount and timing of capital investment, copies of financial statements and a detailed description of the company's productivity, efficiency and financial stability. In that case, the Supreme Court states on page 768 of the opinion that "it does not take a degree in finance to recognize that such information concerning the inner workings of a corporation is 'generally recognized as confidential or proprietary' and falls within the wording of then KRS 61.878(1)(c)(2)" and therefore exempt from disclosure. The entire Application at issue addresses the projected cost of the project (the purchase of the MEPB's fixed assets and integration into SKRECC's electric distribution system) and the specific amount and timing of the capital investment to fund the purchase and integration into SKRECC's system. As such, the entire Application and all exhibits thereto should be determined to be protected as confidential material within the meaning of 807 KAR 5:001 Section 7.

4. Additionally, the entire petition and all exhibits thereto should be determined confidential pursuant to KRS 61.878(1)(c)(2)(a) as information provided to in conjunction with the approval of the Commission of SKRECC's application for a loan to purchase the assets and integrate them into its electric distribution system.

5. Notwithstanding SKRECC's position that the Application, in its entirety, is exempt pursuant to KRS 61.878(1)(c)(1) and KRS 61.878 (1)(c)(2)(a) as shown above, each of the twenty (20) exhibits to the Application are specifically exempt, some by separate, independent exemptions found in KRS 61.878. The exhibits are identified as A-T in the application and each is referred to below by its exhibit designation. Those exceptions are as follows:

- A. Rationale for Purchase. Exemption: KRS 61.878(1)(j) as a preliminary recommendation, opinion or policy.
- B. Interconnection of Systems. Exemption: KRS 61.878(1)(j) as a preliminary recommendation, opinion or policy.
- C. East Kentucky Power Letter. Exemption: KRS 61.878(1)(i) as correspondence with private individuals.
- D. Tax Status. Exemption: KRS 61.878(1)(c)(1) and Hoy, supra as a financial statement inherently confidential and proprietary.
- E. MEPB customers. Exemption: KRS 61.878(1)(j) as a preliminary recommendation, opinion or policy.
- F. SKRECC Mortgages. Exemption: Financial statement. See D above.
- G. SKRECC Notes outstanding. Exemption: Financial statement. See D above.
- H. Other Indebtedness. Exemption: Financial statement. See D above.
- I. Statement of Operations. Exemption: Financial statement. See D above.
- J. Description of SKRECC Property. Exemption: Financial statement. See D above.
- K. Financing of Purchase. Exemption: Financial statement. See D above.
- L. Use of Proceeds from Note. Exemption: KRS 61.878(1)(j) as a preliminary recommendation, opinion or policy.
- M. Contracts Required. Exemption: KRS 61.878(1)(j) as a preliminary recommendation, opinion or policy.

- N. Maps and Plans. Exemption: KRS 61.878(1)(j) as a preliminary recommendation, opinion or policy.
- O. R.W. Beck Appraisal. Exemption: KRS 61.878(1)(f) as an appraisal or evaluation relative to the acquisition of property.
- P. Vaught Appraisal. Exemption: Appraisal. See O above.
- Q. Gonia Appraisal. Exemption: Appraisal. See O above.
- R. Purchase and Sale Agreement. Exemption: KRS 61.878(1)(j) as a preliminary memorandum since the proposed purchase is accomplished only through a majority vote at the November 7, 2007 general election. The contract is not yet binding and will not be until after a favorable vote at the election.
- S. Resolution of MEPB and Ordinance of City of Monticello. Exemption: KRS 61.878(1)(j) as a preliminary recommendation of those bodies approving the purchase and sale of the fixed assets of the MEPB since the proposed purchase is accomplished only through a majority vote at the November 7, 2007 general election.
- T. Letter from Rural Utilities Service. Exemption: KRS 61.878(1)(i) as preliminary correspondence and as a financial statement as set forth in D above.

WHEREFORE, the Applicant, South Kentucky Rural Electric Cooperative Corporation requests the Commission to classify as confidential the entirety of its Application for Approval To Purchase the Fixed Assets of the Monticello Electric Plant Board.



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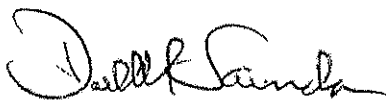
DARRELL L. SAUNDERS, P.S.C.  
ATTORNEY AT LAW  
700 MASTER STREET  
P.O. BOX 1324  
CORBIN, KENTUCKY 40702  
TELEPHONE: (606) 523-1370  
FAX NUMBER: (606) 523-1372

ATTORNEY FOR SOUTH KENTUCKY RURAL  
ELECTRIC COMMISSION

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing was this 20th day of August, 2007 deposited in the regular United States mail, all postage prepaid and addressed for delivery to Ms. Anita Mitchell, Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, KY 40602-0615.

Original to: Ms. Beth O'Donnell, Executive Director, 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

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF;

APPLICATION OF SOUTH KENTUCKY )  
RURAL ELECTRIC COOPERATIVE )  
CORPORATION FOR APPROVAL TO )  
PURCHASE THE FIXED ASSETS OF ) CASE NO. \_\_\_\_\_  
THE MONTICELLO ELECTRIC PLANT )  
BOARD IN MONTICELLO, KENTUCKY )

SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE CORPORATION

P.O. BOX 910

SOMERSET, KENTUCKY 42502

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

**In the Matter of the Application            )**  
**Of South Kentucky Rural Electric        )**  
**Cooperative Corporation for the         )**  
**Approval to Purchase the Fixed Assets   )**  
**Of the Monticello Electric Plant Board   )**

Case No. \_\_\_\_\_

**APPLICATION**

The petition of South Kentucky Rural Electric Cooperative Corporation (“South Kentucky”), P. O. Box 910, Somerset, Kentucky 42502, designated as Kentucky 54 – Wayne states that it is a corporation with all rights, characteristics, powers, privileges and duties shown by the records now on file in the office of the Public Service Commission (“Commission”) of Kentucky, and that it is engaged in the distribution of electric energy in the Counties of Pulaski, Wayne, McCreary, Cumberland, Rockcastle, Casey, Russell, Lincoln, Laurel, Clinton and Adair, all in Kentucky and Pickett and Scott Counties in the State of Tennessee, by and under the Rural Electrification Act and under authority contained in Kentucky Revised Statutes, Chapter 279. South Kentucky is seeking the approval of the Kentucky Public Service Commission (“KPSC”) to purchase the fixed assets of the Monticello Electric Plant Board (“MEPB”) in Monticello, Kentucky. The fixed assets include the electric distribution plant and the general plant. It does not include any of the current assets, investments nor intangible assets. SKRECC will not be liable for any of the payables, short term debt or long term debt of the MEPB. On

November 6, 2007, the registered voters of the City of Monticello will vote whether to approve or disapprove the purchase of the assets by SKRECC pursuant to KRS 98.860.

In support of its application, South Kentucky is providing the below listed information.

1. South Kentucky's Articles of Incorporation with all Amendments have been previously filed with the Commission in Case No. 2005-00450, Application for the Adjustment of Rates to which reference is made the same as though copied herein. (870 KAR .5:001, Section I(3)).

2. SKRECC's reasons for the purchase of the MEPB are attached as Exhibit A.

3. The MEPB was formed on November 4, 1947 by a majority of the registered voters of the City of Monticello.

4. SKRECC's distribution plant is not currently connected to the distribution plant of the MEPB. When SKRECC is able to obtain all necessary approvals to purchase the MEPB, then connection will be made between the current distribution plant of SKRECC with the current distribution plant of the MEPB.

5. A description of the minimal construction required to connect SKRECC's distribution plant with the MEPB's distribution plant is contained in Exhibit B.

6. Attached as Exhibit C is a letter from East Kentucky Power Cooperative ("EKPC") stating its intent to assist SKRECC on this matter in the following manner:

a. EKPC will purchase the Monticello distribution substation from SKRECC in the amount of \$1,200,000.



b. EKPC will purchase from SKRECC or the Tennessee Valley Authority (“TVA”) TVA’s 69kW transmission line at the same price it would cost SKRECC if purchased from TVA.

c. EKPC will provide power supply to SKRECC for the MEPB load once its customers become members of SKRECC at EKPC tariff rates.

d. If SKRECC is not successful in the purchase of the fixed assets of the MEPB due to voter disapproval, EKPC is willing to make a wholesale power sale to SKRECC equal to the MEPB needs at EKPC tariff rates.

7. Attached as Exhibit D is a statement of the effect that the purchase of the MEPB might have on the tax exempt status of SKRECC.

8. Attached as Exhibit E is a statement of how SKRECC plans to integrate the MEPB consumers as members of SKRECC.

9. SKRECC has not authorized the issuance of any type of stock. (807 KAR 5:001, Section 6(1 through 3)).

10. A description of SKRECC’s mortgages is contained in Exhibit F. (807 KAR 5:001, Section 6(4)).

11. SKRECC has not authorized the sale of any type of bonds. (807 KAR 5:001, Section 6(5)).

12. Exhibit G contains a listing of its notes outstanding including date of issue, amount, date of maturity, rate of interest and the amount of interest paid on each note for 2006. (807 KAR 5:001, Section 6(6))

13. A description of any other indebtedness of SKRECC is provided in Exhibit H. (807 KAR 5:001, Section 6(7)).

14. SKRECC has never paid any type of dividends. (807 KAR 5:001, Section 6(8)).
15. Exhibit I contains SKRECC's detailed statement of operations for the twelve months ending May 31, 2007 and a balance sheet as of May 31, 2007.
16. A description of the SKRECC's property including its original cost is contained in Exhibit J. 807 KAR 5:001, Section 11(1)(a)).
17. The amount of notes to be issued for the purchase of the MEPB along with the terms of the notes, the rate of interest and the security for such notes are provided in Exhibit K. (807 KAR 5:001, Section 11(1)(b)).
18. The use of the proceeds from the notes including how much is used for acquisition and how much is used for construction, completion, extension, or interconnection is contained in Exhibit L. (807 KAR 5:001, Section 11(1)(c)).
19. Information on the purchase of the MEPB is contained in Exhibit M including the reasons for the purchase, any contracts that may be entered into, the cost of the acquisition, and the cost associated with the interconnection of the distribution plant of the MEPB with the distribution plant of SKRECC. (807 KAR 5:001, Section 11(1)(d)).
20. No refund or discharge of any obligation is anticipated as a part of this transaction. (807 KAR 5:001, Section 11(1)(e & f)).
21. Copies of all deeds and mortgages of SKRECC are on file with the Commission in Case No. 2005-00450, Application for the Adjustment of Rates to which reference is hereby made the same as though copied herein. (807 KAR 5:001, Section 11(2)(b)).

22. Exhibit N contains the maps and plans and detailed estimates associated with the purchase of the fixed assets of the MEPB and the integration these fixed assets into the SKRECC system. (807 KAR 5:001, Section 11(2)(c).

23. Exhibit O is the Appraisal of the Monticello Electric Assets by R W Beck, a qualified valuation and appraisal firm.

24. Exhibit P is the Appraisal of the MEPB Offices and Garages by Childers Financial Services, Inc.

25. Exhibit Q is the Appraisal of the Machinery and Equipment by Gonia Consulting, LLC.

26. Exhibit R is a copy of the Purchase and Sales Agreement between SKRECC and the MEPB.

27. Exhibit S contains copies of the Resolution of the MEPB for the sale of its fixed assets to SKRECC and an Ordinance from the city of Monticello authorizing the sales of the fixed assets of the MEPB.

28. Exhibit T is a copy of a letter from U. S. Department of Agriculture Rural Development approving the transaction between SKRECC, EKPC and the MEPB.

WHEREFORE, South Kentucky Rural Electric Cooperative Corporation respectfully petitions the Commission to enter an Order authorizing SKRECC to purchase the fixed assets of the Monticello Electric Plant Board along with a Certificate of Convenience and Necessity to construct the necessary distribution facilities to interconnect the two systems and all other proper orders and relief that may be needed.

Respectfully submitted,

South Kentucky Rural Electric  
Cooperative Corporation

Allen Anderson

Allen Anderson  
President & CEO  
South Kentucky Rural Electric  
Cooperative Corporation  
Somerset, Kentucky 42501  
(606) 451-4123

STATE OF KENTUCKY

COUNTY OF PULASKI

Subscribed and sworn to before me by Allen Anderson, President and C.E.O. of  
South Kentucky Rural Electric Cooperative Corporation, at Somerset, Kentucky this  
20<sup>th</sup> day of August, 2007.

Cornel G. Wilson

NOTARY PUBLIC  
State of Kentucky at Large

My Commission Expires: 4/11/10

Darrell L. Saunders

Darrell L. Saunders  
Attorney for SKRECC  
700 Master Street  
P.O. Box 1324  
Corbin, Kentucky 40702  
(606) 523-1370 telephone  
(606) 523-1372 facsimile



## **SOUTH KENTUCKY RECC**

### **RATIONALE FOR THE PURCHASE OF THE MEPB'S FIXED ASSETS**

South Kentucky RECC ("SKRECC") reasons for purchasing these fixed assets are identified below:

1. Due to its aging electric plant and its desire to not incur the substantial debt necessary to efficiently provide service to its customers, the MEPB has determined that a sale of its fixed assets is in its customers' best interests and the realization of having duplication of services in the same small town. along with the concern for energy and backup support.
2. The power supply Request for Proposal ("RFP") issued by the MEPB in 2006 provided an opportunity for SKRECC to make an offer as its response to the RFP.
3. The MEPB's contract with the Tennessee Valley Authority ("TVA") will expire November 20, 2008. The MEPB having provided the TVA with a five (5) year notice of its intent to let the contract expire on November 20, 2003. This contract expiration provides an opportunity for another power supplier to provide service to the MEPB load.
4. SKRECC's service area completely surrounds that of the MEPB and a purchase of its fixed assets is a logical extension of SKRECC's current service area.
5. Since the MEPB is geographically surrounded by SKRECC's service area, there is no possibility of growth.
6. A larger system would benefit the consumers of the MEPB through more favorable bargaining and purchasing power that could lead to better rates.
7. A larger system would provide faster and more reliable service to remedy outages and in the unfortunate event of a disaster.
8. SKRECC is the closest electric distribution provider to the MEPB and possesses a wholesale power contract with East Kentucky Power Cooperative ("EKPC"), a power supplier with generating and transmission facilities and transmission facilities presently located near the city of Monticello.

## **SOUTH KENTUCKY RECC**

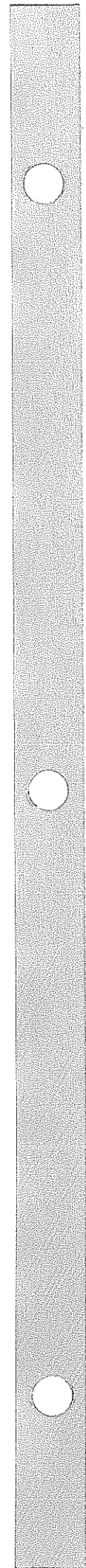
### **RATIONALE FOR THE PURCHASE OF THE MEPB'S FIXED ASSETS**

9. The purchase price agreed to be paid by SKRECC does not exceed the fair market value of the assets.

10. With regard for the above, SKRECC is the most suitable provider of electric power to the MEPB and can adequately provide for the future needs for the citizens of Monticello.

11. The purchase of these fixed assets have several positive aspects for SKRECC. These positive are provided below:

- a. A higher customer density per mile of distribution line;
- b. A higher, average monthly load factor;
- c. The ability to forego the construction of a new office building in or near Monticello with the purchase of the MEPB office building; and,
- d. Employment of the key management and operating personnel of the MEPB until retirement age and the ability to forego the hiring of other new SKRECC personnel that would be needed if MEPB personnel were not being absorbed with the fixed asset purchase.



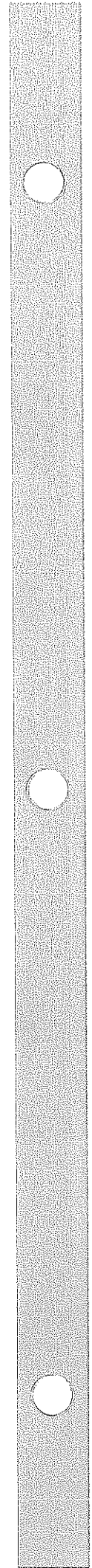


## **SOUTH KENTUCKY RECC**

### **TAX STATUS**

It is the feeling of South Kentucky RECC ("SKRECC") that the purchase of the Monticello Electric Plant Board ("MEPB") will cause no change in the current tax exempt status of SKRECC or the MEPB because both entities are now tax exempt and the purchase of the fixed assets of one tax exempt system by another tax exempt system should not create a taxable entity.

Based upon the total operating revenues for both SKRECC and MEPB for fiscal year 2006, the total operating revenue derived by SKRECC from the MEPB customers and operations would be significantly less than fifteen (15) percent of the total operating revenue of the combined systems.



## **SOUTH KENTUCKY RECC**

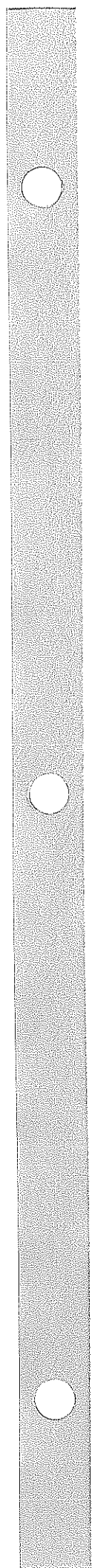
### **MEPB CUSTOMERS & SKRECC MEMBERSHIP**

The integration of the current customers of the Monticello Electric Plant Board into the SKRECC system will be a two step process outlined below.

First, for the period from when SKRECC acquires ownership of the fixed assets of the MEPB until November 2008, the current customers will be treated as members of SKRECC, but will be billed on the current rate schedules of the MEPB since TVA is still providing the wholesale power. All reporting, administrative and accounting functions will be maintained as if the MEPB still existed under separate ownership so as to comply with the TVA contract until it expires in November 20, 2008.

Second, after November 2008, the then current customers within the former MEPB will come completely under the full control of SKRECC, with full rights of membership, and with all reporting, administrative and accounting functions coming under the rules and regulations of the Kentucky Public Service Commission ("Commission"), the same as all members of SKRECC. Additionally, these customers/members will be placed in an appropriate rate schedule of SKRECC that best matches their load characteristics.

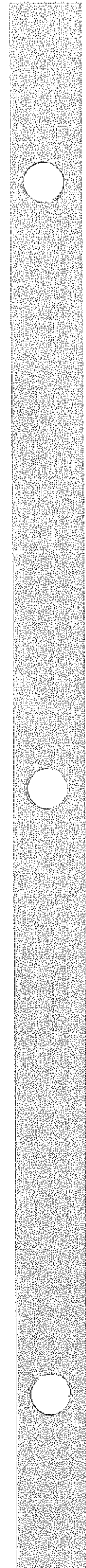
It should be further noted that SKRECC is paying a premium for each MEPB customer in an amount equal to its current membership fee of \$25.00. This money will be returned to SKRECC by the city of Monticello to fund the memberships of the current customers of the MEPB.



## **SOUTH KENTUCKY RECC**

### **DESCRIPTION OF MORTGAGES**

The mortgages of South Kentucky RECC ("SKRECC") are all first mortgages held by the United States Department of Agriculture ("USDA") Rural Development Utilities Program ("RDUP"). Lien accommodations have been given to the National Rural Utilities Cooperative Finance Corporation ("CFC") for loans provided by CFC to SKRECC.



SOUTH KENTUCKY RECC

NOTES OUTSTANDING

<u>Note</u>	<u>Lender</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Original Amount</u>	<u>Current Balance 5/31/2007</u>	<u>Interest Rate %</u>	<u>Interest Paid in 2006</u>
9001							1,157
9003	CFC	3/10/1972	2/28/2009	\$ 426,000	\$ 53,608	7.00	5,769
9006	CFC	5/9/1974	5/8/2010	486,000	102,157	5.50	7,524
9009	CFC	2/17/1977	2/17/2012	486,000	155,242	6.00	11,129
9011	CFC	9/24/1977	9/24/2012	1,235,999	438,961	5.70	29,140
9013	CFC	4/9/1979	4/9/2014	1,671,000	712,036	5.95	47,501
9017	CFC	4/29/1982	4/29/2017	865,000	496,245	6.15	32,819
9018	CFC	4/12/1984	4/12/2019	1,325,052	846,606	6.10	54,672
9019	CFC	7/7/1986	7/7/2021	1,324,000	913,015	6.20	59,166
9020	CFC	11/9/1989	11/9/2024	1,893,000	1,461,829	6.25	94,333
9021	CFC	12/5/1991	12/5/2026	1,526,000	1,197,712	6.25	76,839
9022	CFC	8/26/1993	8/26/2028	2,175,000	1,833,070	6.65	124,589
9023	CFC	8/1/1997	8/1/1932	3,564,000	3,203,123	6.70	218,314
Total CFC				\$ 16,977,051	\$ 11,413,604		762,952

SOUTH KENTUCKY RECC

NOTES OUTSTANDING

<u>Note</u>	<u>Lender</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Original Amount</u>	<u>Current Balance 5/31/2007</u>	<u>Interest Rate %</u>	<u>Interest Paid in 2006</u>
OB210	RUS	3/10/1972	3/2/2007	\$ 432,500	-	2.00	311
OB212	RUS	3/10/1972	3/2/2007	432,500	-	2.00	311
IB220	RUS	5/9/1974	4/30/2009	497,000	52,464	5.00	4,173
IB222	RUS	5/9/1974	4/30/2009	497,000	52,464	5.00	4,173
IB230	RUS	3/17/1975	3/8/2010	567,000	91,474	5.00	6,257
IB232	RUS	3/17/1975	3/8/2010	567,000	91,474	5.00	6,257
IB240	RUS	2/17/1977	2/9/2012	567,000	142,789	5.00	8,683
IB242	RUS	2/17/1977	2/9/2012	567,000	142,789	5.00	8,683
IB250	RUS	9/24/1977	9/15/2012	1,441,000	415,389	5.00	24,551
IB252	RUS	9/24/1977	9/15/2012	1,441,000	415,390	5.00	24,551
IB260	RUS	4/9/1979	3/31/2014	1,852,000	664,235	5.00	37,718
IB262	RUS	4/9/1979	3/31/2014	1,852,000	664,231	5.00	37,717
IB270	RUS	4/9/1982	3/31/2017	958,500	461,332	5.00	25,082
IB272	RUS	4/9/1982	3/31/2017	958,500	461,332	5.00	25,082
IB280	RUS	2/17/1984	2/8/2019	1,484,000	814,092	5.00	43,091
IB282	RUS	2/17/1984	2/8/2019	1,484,000	814,092	5.00	43,090
IB290	RUS	3/18/1986	3/9/2021	1,544,000	960,370	5.00	50,240
IB293	RUS	3/28/1986	3/19/2021	1,544,000	987,477	5.00	51,645
IB300	RUS	8/11/1989	8/2/2024	2,209,000	1,582,890	5.00	81,837
IB302	RUS	8/11/1989	8/2/2024	2,209,000	1,582,890	5.00	81,837



**SOUTH KENTUCKY RECC**

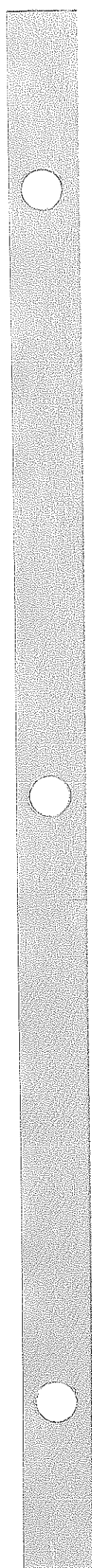
**NOTES OUTSTANDING**

<u>Note</u>	<u>Lender</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Original Amount</u>	<u>Current Balance 5/31/2007</u>	<u>Interest Rate %</u>	<u>Interest Paid in 2006</u>
IB310	RUS	9/22/1991	9/13/2026	\$ 1,780,000	1,368,185	5.00	70,367
IB312	RUS	9/20/1991	9/11/2026	1,780,000	1,368,185	5.00	70,367
IB320	RUS	5/21/1993	5/12/2028	2,537,500	2,045,742	5.00	104,851
IB326	RUS	5/21/1993	5/12/2028	2,537,500	2,100,318	5.00	107,639
IB330	RUS	4/10/1997	4/1/2032	4,157,500	3,453,935	3.50	103,581
IB335	RUS	6/2/1999	5/24/2034	4,157,500	3,447,984	3.37	101,570
IB340	RUS	3/8/2001	2/28/2036	6,000,000	5,705,798	5.78	334,004
IB341	RUS	3/18/2001	3/9/2036	5,000,000	4,653,708	5.41	255,188
IB342	RUS	3/18/2001	3/9/2036	5,000,000	4,577,980	5.20	201,138
IB343	RUS	3/18/2001	3/9/2036	5,000,000	1,885,587	4.99	95,483
IB344	RUS	3/18/2001	3/9/2036	5,000,000	2,181,584	5.47	120,927
IB350	RUS	3/18/2001	3/9/2036	6,800,000	6,551,845	5.31	352,322
IB351	RUS	3/18/2001	3/9/2036	600,000	5,784,892	5.44	318,627
IB352	RUS	1/22/2004	1/13/2039	300,000	2,882,326	5.02	146,720
IB353	RUS	10/5/2004	9/27/2039	8,354,000	7,931,085	5.04	412,252
IB360	RUS	9/15/2005	9/6/2040	6,000,000	6,000,000	4.63	320,531
IA361	RUS	5/8/2007	5/8/2042	4,000,000	4,000,000	5.05	144,997
IA362	RUS	9/4/2007	9/4/2042	6,000,000	6,000,000	5.05	117,200
IA363	RUS	12/13/2007	12/13/2042	6,000,000	6,000,000	4.60	-

SOUTH KENTUCKY RECC

NOTES OUTSTANDING

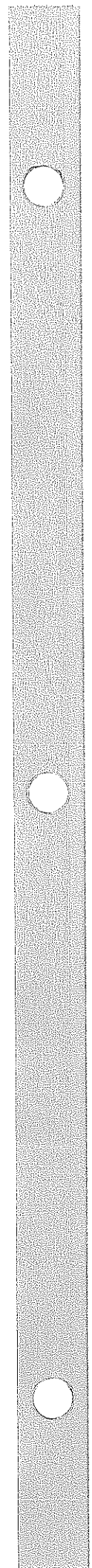
<u>Note</u>	<u>Lender</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Original Amount</u>	<u>Current Balance 5/31/2007</u>	<u>Interest Rate %</u>	<u>Interest Paid in 2006</u>
	RUS	7/19/2004	7/19/2014	250,000	190,338	0%	
	RUS	7/19/2004	7/20/2014	389,469	275,479	0%	
	RUS	2/21/2005	2/21/2015	300,000	236,510	0%	
	RUS	6/29/2006	6/29/2016	400,000	324,189	0%	
	RUS	2/21/2006	2/21/2016	250,000	213,672	0%	
	RUS	3/1/2007	3/1/2017	348,000	348,000	0%	
	Advance Payments Unapplied						
					<u>\$ 106,045,469</u>	<u>\$ 89,580,225</u>	<u>\$ 3,943,053</u>
	Total RUS & Econ Dev						
					<u>\$ 100,993,829</u>		<u>4,706,005</u>
	Total for All Notes						



**SOUTH KENTUCKY RECC**

**OTHER INDEBTEDNESS**

Except for current payables and operating costs, SKRECC has no indebtedness other than the debt listed in Exhibit G which is a part of this application.



SOUTH KENTUCKY RECC

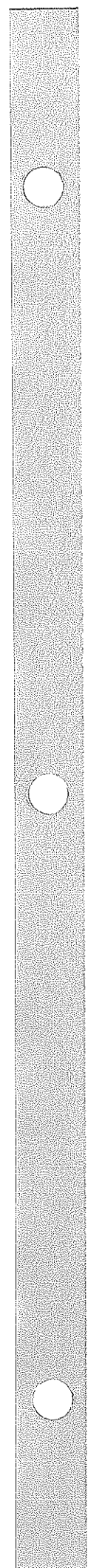
STATEMENT OF OPERATIONS  
FOR THE TWELVE MONTHS ENDING MAY 31, 2007

1	Operating Revenue	\$	94,176,945
2	Purchaed Power Cost		69,709,191
3	Gross Margin		<u>24,467,754</u>
4			-
5	Distribution Expense-Operations		3,097,861
6	Distribution Expense-Maintenance		5,310,543
7	Consumer Accounts Expense		3,365,014
8	Customer Serv & Information Exp.		524,806
9	Sales Expense		20,686
10	Administrative & General Expense		3,395,574
11	Depreciation Expense		4,494,015
12	Tax Expense - Other		84,378
13	Interest on Long Term Debt		4,981,848
14	Interest Expense - Other		68,863
15	Other Deductions		82,230
16	Total Distribution Expense		<u>25,425,818</u>
17			
18	Operating Margin		(958,064)
19			
20	Non Operating Margins-Interest		187,565
21	Income (Loss) from Equity Investments		(71,822)
22	Non Operating Margins-Other		59,089
23	Other Capital Credits		143,983
24			
25	Net Margins	\$	<u>(639,249)</u>

SOUTH KENTUCKY RECC

BALANCE SHEET  
MAY 31, 2007

1	<b>Assets</b>				
2	Total Utility Plant In Service	\$ 160,350,908			
3	Construction Work in Progress	3,476,680			
4	Total Utility Plant In Service	<u>163,827,588</u>			
5	Accumulated Depreciation	33,372,841			
6	Net Utility Plant	<u>130,454,747</u>			
7	Nonutility Property-Net	181,911			
8	Investments in Subsidiary Companies	84,326			
9	Invest in Assoc Org. - Patronage Capital	19,309,064			
10	Invest in Assoc Org - Other General Funds	1,730,201			
11	Invest in Assoc Org - Other Nongeneral Funds	-			
12	Investments in Economic Development Projects	1,750,686			
13	Other Investments	-			
14	Special Funds	-			
15	Total Other Property and Investments	<u>23,056,188</u>			
16	Cash - General Funds	1,147,959			
17	Cash - Construction Funds - Trustee	-			
18	Special Deposits	736,580			
19	Temporary Investments	(1,642)			
20	Notes Receivable (Net)	6,818,859			
21	Accounts Receivable - Sales of Energy	524,189			
22	Accounts Receivable - Other (Net)	1,932,064			
23	Materials and Supplies	753,292			
24	Prepayments	636,836			
25	Other Current and Accrued Assets	12,548,137			
26	Total Current and Accrued Assets	<u>482,524</u>			
27	Regulatory Assets				
28	Other Deferred Debits				
29	Total Assets	<u>\$ 166,541,596</u>			
30	<b>Liabilities &amp; Equity</b>				
31	Memberships				\$ 1,214,825
32	Patronage Capital				48,648,892
33	Operating Margins - Prior Years				(1,272,944)
34	Operating Margins - Current Year				909,622
35	Non Operating Margins				227,820
36	Other Margins & Equities				(1,289,382)
37	Total Margins & Equity				<u>48,438,833</u>
38	Long Term Debt REA (net)				86,092,399
39	Long Term Other - Economic Development				1,588,188
40	Long Term Debt FFB REA Guarantee				-
41	Long Term Debt Other REA Guarantee				-
42	Long Term Debt Other (Net)				<u>10,708,967</u>
43	Total Long Term Debt				<u>98,389,554</u>
44	Obligations under Capital Lease				3,929,051
45	Accumulated Operating Provisions				<u>3,929,051</u>
46	Total Other Noncurrent Liabilities				469,263
47	Notes Payable				6,796,426
48	Accounts Payable				711,958
49	Consumer Deposits				2,604,275
50	Current Maturities Long Term Debt				106,725
51	Current Maturities LT Debt ECON Dev				-
52	Current Maturities - Capital Lease				1,615,009
53	Other Current & Accrued Liabilities				<u>12,303,656</u>
54	Total Current & Accrued Liabilities				3,480,503
55	Regulatory Liabilities				
56	Deferred Credits				
57	Total Liabilities and Equity				<u>\$ 166,541,597</u>



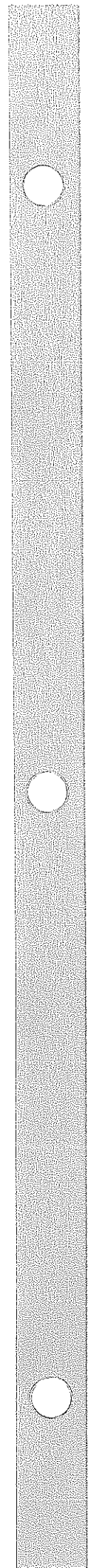


## **SOUTH KENTUCKY RECC**

### **DESCRIPTION OF PROPERTY**

South Kentucky RECC distributes electric power in South Central Kentucky in the counties of Adair, Casey, Clinton, Cumberland, Laurel, Lincoln, McCreary, Pulaski, Rockcastle, Russell, Wayne, in Kentucky and Pickett and Scott in Tennessee.

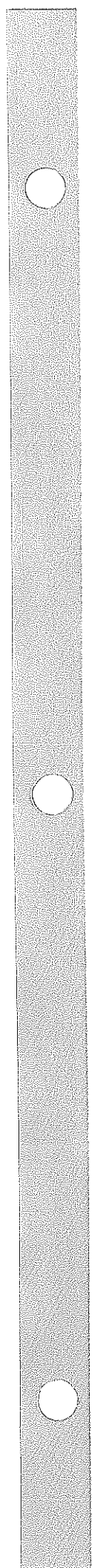
The total number of consumers/members served is approximately 62,500 as of the end of May, 2007. Electric power is distributed over 6,562 miles of energized electric lines. The original cost and net book value of SKRECC's facilities are \$163,827,588 for the original cost of all plant, accumulated depreciation amounts to \$33,372,841 and the net book value is \$130,454,747.



**SOUTH KENTUCKY RECC**

**FINANCING OF THE PURCHASE OF THE MONTICELLO ELECTRIC  
PLANT BOARD'S FIXED ASSETS**

1	Purchase Price	\$ 4,686,000
2	Terms of the Financing	
	a. Amount repaid to SKRECC for memberships	\$ 86,000
	b. Down payment by SKRECC	\$ 200,000
	c. Amount Financed	\$ 4,400,000
3	Interest Rate on Debt per annum	4.75%
4	Length of repayment of promissory notes in years	30
5	Security for the Debt to be held by the City of Monticello	First Mortgage

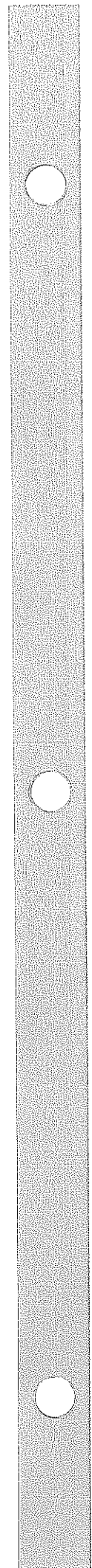


## **SOUTH KENTUCKY RECC**

### **USE OF PROCEEDS FROM THE NOTE TO CITY OF MONTICELLO**

The proceeds from the promissory in the amount of \$4,400,000 will be used strictly for the purchase of the fixed assets of the Monticello Electric Plant Board. and represents the amount SKRECC will owe after making its initial down payment of \$200,000.

Interconnection costs, estimated to be \$51,000.00 will be paid from funds that SKRECC expects to receive from East Kentucky Power Cooperative from the sale of the distribution substation to EKPC. The current estimate on the sale price of this substation is \$1,200,000. The remainder of the funds from the sale of the substation to EKPC will be used to offset the initial purchase price paid by SKRECC to the MEPB.



## SOUTH KENTUCKY RECC

### CONTRACTS AND COSTS

- 1 The rationale for the purchase of the Monticello Electric Plant Board ("MEPB") is contained in Exhibit A of this submission.
- 2 Contracts that South Kentucky RECC ("SKRECC") may be required to enter into for this transaction include the following ones:
  - a. Contract for the purchase of the fixed assets of the MEPB.
  - b. Contract amendment for the purchase of power from the Tennessee Valley Authority ("TVA") for sale to the MEPB from the current time until November 2008 when the TVA contract for power supply expires with the MEPB
  - c. Contract for the purchase of a 69 kV transmission line from the TVA for the Supply of power to the MEPB.
  - d. Contract for the sale of the transmission line in item c above to East Kentucky Power Cooperative ("EKPC").
  - e. Contract for the sale of a distribution substation to EKPC that is a part of the fixed assets purchased from the MEPB.
- 3 The acquisition costs associated with the purchase of the MEPB is based on the following basis:

Negotiated contract price for the MEPB fixed assets	\$ 4,686,000
Less: Current estimate on the sale price of the distribution substation	<u>1,200,000</u>
Estimated net cost for the purchase of the MEPB fixed assets	<u><u>\$ 3,486,000</u></u>

**SOUTH KENTUCKY RECC**

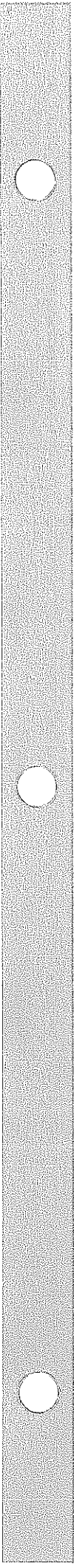
**PURCHASE OF THE MONTICELLO ELECTRIC PLANT BOARD'S  
FIXED ASSETS**

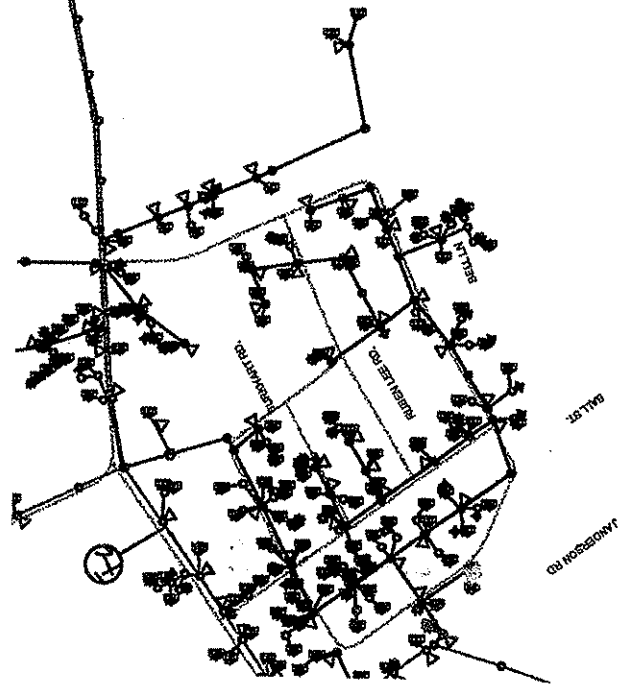
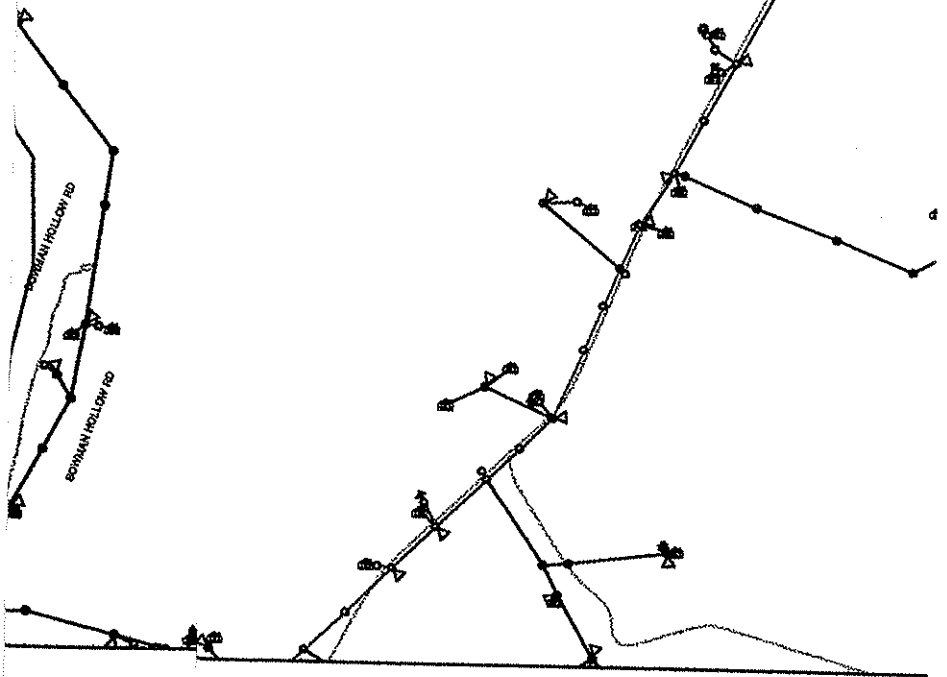
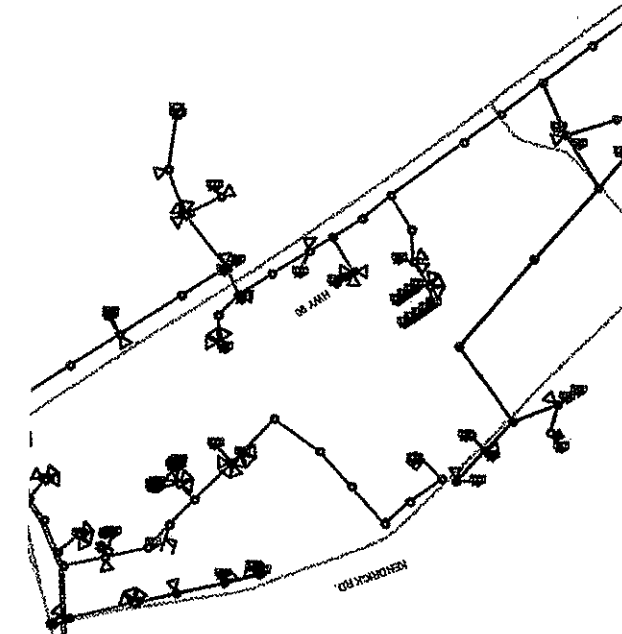
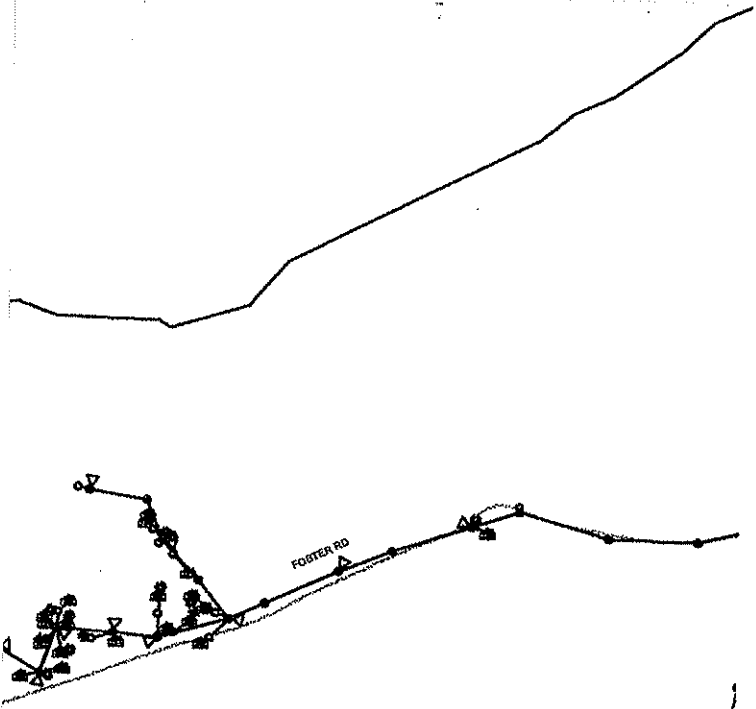
**CONTRACTS AND COSTS**

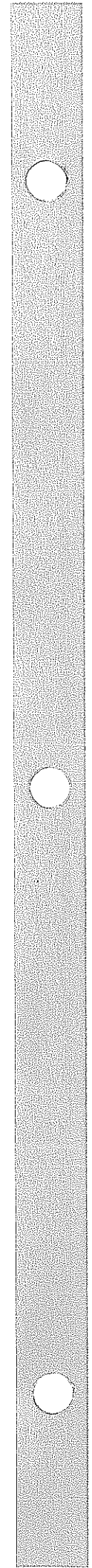
- 4 The interconnection of the distribution plant of the MEPB with the distribution plant of SKRECC cannot be accomplished until the TVA contract with the MEPB expires in November, 2008. Provided below is an estimate of the cost of these interconnections.

Number of potential points of interconnection	<u>7</u>
Maximum number of points of interconnection	<u>4</u>
Estimated cost range for the maximum number of points of interconnection:	<u>\$259,000 to \$336,000</u>
Expected interconnections to be made: Options #1 and #4	<u>2</u>
Estimated cost of the expected interconnections:	<u>\$ 51,000</u>









PURCHASE AND SALES AGREEMENT

THIS PURCHASE AND SALES AGREEMENT, this day made and entered into by and between THE ELECTRIC PLANT OF THE CITY OF MONTICELLO, KENTUCKY, of P.O. Box 657, Monticello, Kentucky 42633, party of the first part, (hereinafter referred to as EPB); and SOUTH KENTUCKY RURAL ELECTRIC CO-OP CORPORATION of P.O. Box 910, Somerset, Kentucky 42502, or an affiliated company of SKRECC, at its option, party of the second part, (hereinafter referred to as RECC).

W I T N E S S E T H:

THAT WHEREAS EPB is desirous of selling all of its electric plant and assets located either within or outside the boundary of the municipality of Monticello, Kentucky, owned and operated by it and RECC is desirous of purchasing the electric plant facility and all assets thereof, and

THAT WHEREAS the parties hereto have had various discussions concerning this proposed purchase and sale and now desire to reduce these agreements to writing for the purpose of memorializing same, and

NOW THEREFORE IN CONSIDERATION of the mutual covenants and agreements as hereinafter set forth, the same being a good and sufficient consideration, the parties do hereby agree as follows, to-wit:

1. ASSETS. That EPB agrees to sell and RECC agrees to purchase all of the real estate, personal property, utility poles, substations, revenue producing contract rights as set forth on

exhibit A attached hereto, as supplemented by EPB's financial records, and any and all other assets owned by EPB, whether set forth on exhibit A or not, including all assets acquired from the date hereof until closing, unless otherwise excluded herein, for the purpose of allowing RECC to be the complete and sole owner of all of the facilities and assets of EPB. Cash on hand and accounts receivable shall be addressed in #4 below.

2. CONSIDERATION. That for and in consideration of the transfer of said assets from EPB to RECC, EPB shall be paid the sum of FOUR MILLION SIX HUNDRED EIGHTY SIX THOUSAND DOLLARS (\$4,686,000.00), which represents all assets and facilities. However, subsequent to the sale, the City of Monticello, Kentucky shall pay to RECC the \$25.00 membership fee per number of customers served at date of sale.

3. TERMS OF PAYMENT. RECC agrees to pay said \$4,686,000.00 with a payment of \$286,000.00 to the City of Monticello upon approval by the voters, and the balance of said purchase price being \$4,400,000.00 due and payable to the City of Monticello on a thirty year amortized basis at the rate of 4.75% per annum with the first payment of \$146,666.67 plus accumulated interest on the unpaid principal to be due and owing on the \_\_\_ day of \_\_\_\_\_, 2008, and each consecutive and successive year thereafter on the \_\_\_\_\_, day of \_\_\_\_\_, for a total of thirty years, which note shall not be prepayable.

4. ACCOUNTS RECEIVABLE, ACCOUNTS AND CASH ON HAND. Both parties understand and agree that upon approval by the voters of

this purchase and sales agreement, any and all sums of money in the existing bank account, checking or savings, accounts receivable and accounts of EPB shall be transferred to the City of Monticello, Kentucky as soon as possible after closing, however there shall also be an approximate debt of \$400,000.00 that is now due and owing by EPB or any other outstanding debts of EPB that shall also be assumed by the City of Monticello or paid by it from the above bank account funds, all in an effort to sell and transfer an unencumbered title of all assets of EPB to RECC in consideration of their agreement to pay said purchase price.

5. MORTGAGE AND SECURITY AGREEMENT. As a result of the thirty year financing of the payment as set forth above, RECC shall grant the City of Monticello a first mortgage lien on all real estate being purchased by RECC from EPB and also a first security agreement and financing statement for all personal property, fixtures, accounts receivable and contract rights being sold to RECC by EPB and that said documents shall be executed and delivered to EPB and/or City of Monticello at the closing of this transaction and duly lodged in the Wayne County Court Clerk's Office to perfect its first mortgage liens and security agreements against said assets.

6. REVENUE It is understood and agreed that EPB shall continue operating this facility and receive all revenues and be obligated to pay all debts pertaining to the operation of this electric system until this transaction is closed and both parties agree that there may need to be an adjustment on the last billing cycle for a

one month period due to the billing and revenue side being one month a part and the parties agree that an adjustment shall be made by either a payment to or from RECC or EPB/City of Monticello depending upon the receipts and revenues generated the month after the sale is consummated. Any payments made by EPB for electric prior to closing shall entitle EPB to receive the revenue generated therefrom.

7. HAYDEN INSURANCE POLICY. Both parties acknowledge the existence of an ongoing obligation by EPB to pay the previous Chairman and Board Member, Robert (Bob) Hayden pursuant to an insurance plan offered to the Board Members several years ago and with an existing insurance policy on the life of Bob Hayden that is now payable to EPB upon Mr. Hayden's death which in essence creates a "wash out" or break even transaction and that said obligation shall either be negotiated with Mr. Hayden by the City of Monticello or assumed by the City of Monticello as a part of this sales agreement.

8. REFERENDUM. Both parties understand and acknowledge that the purchase and sale of the above stated assets of EPB is subject to KRS 96.860 and any other applicable statutes and contract with TVA which in essence will require the Board of EPB to adopt a resolution approving the sale, describing the property to be sold, identifying the purchaser, stating the consideration for the purchase, and the terms and conditions of the sale and that this sale shall be subject to the voters qualified to vote in the regular November election to cast a majority of votes approving

this sale. The parties also understand upon the EPB adoption of a resolution containing the above information that said resolution shall be submitted to the governing body of the City of Monticello, and only after it is approved by the Council of the City of Monticello, shall the question of the sale of this facility be submitted to November vote of the qualified voters. In the event either the City Council of Monticello, Kentucky does not adopt and approve the resolution submitted to it by EPB or the qualified voters in the November general election reject the sale, then and in either of those events, this contract and all terms and conditions set forth herein shall, unless otherwise clarified and stated, be null and void and shall have no binding effect on either party.

9. PUBLIC SERVICE COMMISSION AND OTHER GOVERNMENTAL BODIES.

The parties further understand and agree that RECC will have to seek and obtain approval of the terms hereof from the Public Service Commission or any other governmental body of RECC which either regulates its business or provides its financing prior to this transaction being consummated and in the event the Public Service Commission or other governmental body of RECC does not approve RECC's request to purchase the facilities and assets of EPB pursuant to the terms hereof then and in that event this agreement shall be null and void and unenforceable.

10. TVA. The parties further understand and agree that there is an existing contract among EPB, City of Monticello and TVA pertaining to the ownership and operation of EPB and pursuant to



the Little TVA Act as set forth in the Kentucky Revised Statutes and that the parties must seek the approval of TVA to release EPB and RECC from any future obligations under the original contract among the parties since the contract does not expire until November, 2008 or RECC be obligated to honor TVA's contract until its completion date in 2008. Failure to obtain the consent of or fulfill the obligations to TVA may also nullify and void this agreement.

11. CLOSING. The closing shall occur within 30 days after certification of the vote at the November 2007 Election at which time EPB shall transfer and convey title to all assets to SKRECC with covenant of general warranty. All assets shall be delivered at closing in the same condition as they exist as of the date hereof, normal wear and tear excepted. At closing SKRECC shall execute a promissory note for the unpaid purchase price and the mortgage and security agreement set forth in numerical paragraph 5 above.

12. EMPLOYEES. It is the intention of RECC upon the consummation and purchase of all assets and facilities of EPB to offer all employees now employed by EPB a position at RECC with wages at or above the same wages and benefits for similar jobs, presently provided them and to further guarantee said employees the opportunity to work at RECC and RECC will make every good faith effort to retain said employees if job performance remains at an

acceptable level.

13. TRANSMISSION LINE. The parties further understand and agree that there is an approximate two mile stretch of transmission line that TVA continues to own that RECC will be attempting to negotiate the purchase of same and in the event RECC does purchase said transmission line from TVA but this agreement is not consummated for any of the above stated reasons, then and in that event RECC shall and does hereby grant EPB a six (6) month Option to Purchase said transmission line at the same price paid by RECC to purchase it from TVA plus interest at the rate of 4.75% per annum from the purchase date of RECC to the sales date to EPB and any other identifiable costs associated with the purchase.

14. RATE COMMITMENT. In the event this purchase and sale of EPB facilities and assets cannot be consummated and closed for any of the above stated reasons, and by reason of EPB having given a termination notice to TVA of future electric service, RECC does hereby agree and commit to provide continued wholesale electricity to EPB and its customer base for a period of no less than two years from November \_\_\_\_, 2008, the termination date of TVA contract, at a wholesale rate but in no event shall these wholesale electric rates be greater than the wholesale rate charged to RECC at such time as the sale is approved. The parties specifically agree that this part of the agreement shall survive and be binding upon the parties regardless of the fact of the balance of this agreement being cancelled in the event the sale of these facilities is not

consummated for any of the above stated reasons.

15. OPERATIONS. Both parties understand and agree that during the course of the proposed purchase and sale of the EPB assets to RECC that EPB shall continue operating its facilities in the same manner as it has in the past, including but not limited to, the continued maintenance of utility poles and lines and its basic facilities and managerial and accounting methods, all in an effort to maintain the facilities and its operation in its present state of condition until this transaction is closed.

16. NETPOWER, LLC. The parties further understand and acknowledge that EPB is a part owner of the business of NetPower, LLC that provides internet service to certain customers in Wayne County, Kentucky and that EPB would also be transferring all of its right, title and interest in and to NetPower, LLC to the City of Monticello as a result of this sale and the City of Monticello shall assume all liabilities and responsibilities concerning the operation of NetPower, LLC upon the consummation of this action.

17. ADVISORY BOARD AND SUPERINTENDENT. It is also agreed and understood between the parties that upon consummation of this sale, the current Board Members of EPB would become members of an advisory board to RECC relative to the newly acquired Monticello facility and the current Superintendent of EPB shall be retained by RECC also in an advisory capacity for a minimum period of two years with a compensation amount equal to their current levels.

18. DEPOSIT ACCOUNTS. The parties further understand and agree that all customer deposits now in the possession or control

of EPB would be transferred and assigned to RECC at or within ten (10) days of the closing of this transaction and that RECC shall become obligated and liable for the handling and disposition of said customer deposits consistent with the rules and regulations of RECC.

19. COMMUNITY INVOLVEMENT. That upon approval and consummation of this purchase and sales RECC agrees to continue with its community involvement in the Monticello/Wayne County, Kentucky area in an effort to provide good and dependable electric services at the most reasonable and cost efficient rates that it can provide to its customer base and to also display an interest in the Monticello, Wayne County, Kentucky area by investing either financially or otherwise in programs that may be available to its customers, the same as it has done with its other existing customers in Southern Kentucky.

That this constitutes the entire Purchase and Sales Agreement between these parties and shall be binding upon their heirs, successors and assigns and shall not be modified unless done so in writing.

IN WITNESS WHEREOF the parties hereto have hereunto subscribed their names, on this 11<sup>th</sup> day January, 2007.

FIRST PARTY:

THE ELECTRIC PLANT BOARD OF  
THE CITY OF MONTICELLO, KY

BY: 

MIKE ANDERSON, CHAIRMAN OF  
THE BOARD

SECOND PARTY:

SOUTH KENTUCKY RURAL ELECTRIC  
CO-OP CORPORATION

BY: 

ALLEN ANDERSON, PRESIDENT  
& C.E.O.

BY: Gary E. Dishman  
GARY DISHMAN, SUPERINTENDENT

BY: Richard Stephens  
RICHARD STEPHENS, CHAIRMAN OF  
THE BOARD

STATE OF KENTUCKY  
COUNTY OF WAYNE

The foregoing Purchase and Sale Agreement was signed and acknowledged before me by First Party, THE ELECTRIC PLANT BOARD OF THE CITY OF MONTICELLO, KY, acting by and through Mike Anderson, Chairman of the Board, and Gary Dishman, Superintendent, on this 15<sup>th</sup> day of Feb, 2007.

Nedine Keaton  
NOTARY PUBLIC

My Comm. Expires: 9/16/2007

STATE OF KENTUCKY  
COUNTY OF Polk

The foregoing Purchase and Sale Agreement was signed and acknowledged before me by Second Party, SOUTH KENTUCKY RURAL ELECTRIC CO-OP CORPORATION, acting by and through, Allen Anderson, President & C.E.O. and Richard Stephens, Chairman of the Board on this 11<sup>th</sup> day of January, 2007.

Amy Keaton  
NOTARY PUBLIC

My Comm. Expires: June 23, 2010

THIS INSTRUMENT PREPARED BY:  
PHILLIPS & PHILLIPS  
ATTORNEYS AT LAW  
P.O. BOX 391  
MONTICELLO, KENTUCKY  
(606) 348-5591

BY: [Signature]  
ATTORNEY

NOV 06  
 -92) MONTHLY REPORT

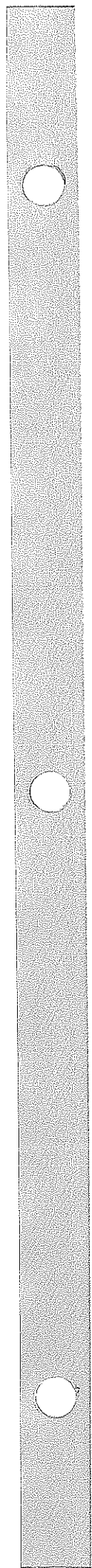
MONTHLY REPORT

UTILITY ORGANIZATION  
 MORTICELLO ELECTRIC SYSTEM

BALANCE SHEET

ASSETS AND OTHER DEBITS		AMOUNT
<b>UTILITY PLANT</b>		
ELECTRIC PLANT . . . . .	1 1 1	6,752,087.77
LESS DEPRECIATION . . . . .	1 2 1	2,968,667.02
TOTAL . . . . .	1 3 1	3,783,420.75
AMORTIZED ACC. ADJ. . . . .	1 4 1	.00
OTHER UTILITY PLANT - NET . . . . .	1 5 1	.00
TOTAL PLANT - NET . . . . .	1 6 1	3,783,420.75
<b>OTHER PROPERTY AND INVESTMENTS</b>		
UTILITY PROPERTY - NET . . . . .	1 7 1	.00
OTHER INVESTMENTS . . . . .	1 8 1	70,775.78
SAVING FUNDS . . . . .	1 9 1	.00
DEPRECIATION FUNDS . . . . .	1 10 1	218,183.32
OTHER SPECIAL FUNDS . . . . .	1 12 1	184,756.69
TOTAL . . . . .	1 13 1	473,715.79
<b>CURRENT AND ACCRUED ASSETS</b>		
CASH AND TEMP. CASH INVESTMENTS . . . . .	1 14 1	564,595.00
ACCOUNTS RECEIVABLE . . . . .	1 15 1	684,911.25
MATERIALS AND SUPPLIES . . . . .	1 16 1	146,040.07
REPAYMENTS . . . . .	1 17 1	15,322.45
OTHER CURRENT ASSETS . . . . .	1 18 1	.00
TOTAL . . . . .	1 19 1	1,410,868.77
<b>DEFERRED DEBITS</b>		
DEBT EXPENSE . . . . .	1 20 1	.00
PRELIMINARY SURVEY . . . . .	1 21 1	.00
LEARNING ACCOUNTS . . . . .	1 22 1	286.69
RECEIVABLES CONSERVATION . . . . .	1 24 1	82,061.72
DEFERRED COST ON TUA LEASE . . . . .	1 25 1	.00
OTHER DEFERRED DEBITS . . . . .	1 26 1	21,074.76
TOTAL . . . . .	1 27 1	103,423.17
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>1 28 1</b>	<b>5,771,428.48</b>

Ex. A



RESOLUTION OF THE ELECTRIC PLANT BOARD  
OF THE CITY OF MONTICELLO

WHEREAS the Electric Plant Board of the City of Monticello is desirous of selling its electric plant facility and assets to South Kentucky Rural Electric Co-Op Corporation, and

WHEREAS the Electric Plant Board of the City of Monticello desires to adopt a resolution pursuant to KRS 96.860 for the selling and disposing of its electric plant located within and outside the boundary of the City of Monticello, and

WHEREAS to be in compliance with KRS 96.860 and its requirement to adopt a resolution to be submitted to the City of Monticello and ultimately the qualified voters of the City, and

NOW THEREFORE BE IT RESOLVED that the Board of Directors of the Electric Plant Board of the City of Monticello does hereby adopt the following resolution, to-wit:

1. The Electric Plant Board of the City of Monticello has approved the proposed sale or disposition of all Electric Plant Board assets, unless otherwise excepted, to South Kentucky Rural Electric Co-Op Corporation by majority vote and Board approval at its regular board meeting held at its plant facility on North Main Street, Monticello, Kentucky on Thursday, January 11, 2007.

2. That the property to be sold or disposed of by the Electric



Plant Board shall consist of all real estate, personal property, substations, contract rights, utility poles, and other fixed assets of the Electric Plant Board of the City of Monticello with the exception of the accounts receivable, cash on hand and checking and savings accounts and its interest in NetPower, LLC and the one (1) existing deferred compensation contract which all shall be received and assumed by the City of Monticello, first subject however to the payment or fulfillment of any ongoing debts or contractual obligations to T.V.A. or other vendors, Creditors or employees of the Electric Plant Board, including but not limited to the \$400,000.00 debt of the Electric Plant Board.

3. The transferee or purchaser of the facility and assets of the Electric Plant Board of the City of Monticello is South Kentucky Rural Electric Co-Op Corporation of P.O. Box 910, Somerset, Kentucky 42502.

4. The consideration to be received by the Board for such sale or disposition, which shall ultimately be due the City of Monticello, Kentucky, shall be the sum of \$4,686,000.00, which represents \$4,600,000.00 for all assets and facilities and an additional \$86,000.00 for the membership fees of its members.

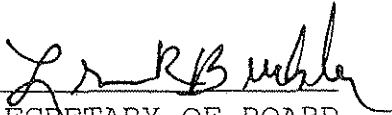
5. The terms and conditions of such sale or disposition are that \$86,000.00 shall be immediately repaid to South Kentucky RECC

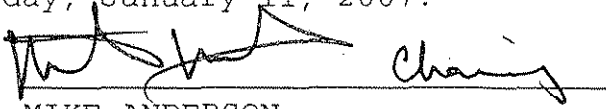
by the City of Monticello for and on behalf of the existing members of the Electric Plant Board of the City of Monticello at the rate of \$25.00 per existing customer which will cause the customers to then become members of South Kentucky Rural Electric Co-Op Corporation and the \$4,600,000.00 due the City of Monticello, Kentucky shall be paid at the rate of \$200,000.00 upon approval by the voters and all closing documents being executed and the balance of \$4,400,000.00 to be due and payable to the City of Monticello on a thirty (30) year promissory note with an amortized basis at the rate of 4.75% per annum with the first principal payment of \$146,666.67 plus accumulated interest on the unpaid principal to be paid on the \_\_, day of \_\_\_\_\_, 2008 and with a like installment of \$146,666.67 plus interest on the unpaid balance due on the \_\_, day of \_\_\_\_\_, of each consecutive and successive year thereafter for a total of thirty (30) years until paid in full, and with no prepayment rights on said note. It is also the directive and stipulation by the Electric Plant Board that Twenty Percent (20%) of the principal payment made to the City of Monticello each year be earmarked and designated by the City Council of the City of Monticello to be used for economic development.

6. The date on which the election to be held shall be Tuesday, November 6, 2007, which question shall be submitted to the

qualified voters of the municipality of Monticello, Kentucky for their approval or disapproval of this proposed sale.

The above resolution was formally adopted and approved by a majority vote of the Board of Directors of the Electric Plant Board of the City of Monticello on Thursday, January 11, 2007.

ATTEST:   
SECRETARY OF BOARD

 Chairman  
MIKE ANDERSON,  
CHAIRMAN OF THE BOARD

## ORDINANCE NO. \_\_\_\_\_

**AN ORDINANCE BY THE CITY COUNCIL OF THE CITY OF MONTICELLO, KENTUCKY RELATED TO THE DISPOSITION OR SALE OF THE MONTICELLO ELECTRIC PLANT BOARD ELECTRIC FACILITIES, STATING THE FINDING OF FACTS RELATED THERETO, STATING THE DESIRABILITY OF THE SALE, DIRECTING THE QUESTION OF THE SALE TO BE PREPARED AND PLACED BEFORE QUALIFIED VOTERS OF MONTICELLO, PROVIDING FOR THE CERTIFICATION OF SAID ORDINANCE TO THE COUNTY CLERK, AND PROVIDING FOR ADVERTISEMENT OF SUCH ELECTION.**

**NOW, THEREFORE, BE IT ORDAINED** by the City Council of the City of Monticello, Kentucky as follows:

Section 1. That the City Council hereby finds the following facts, that the Monticello Electric Plant Board has adopted a Resolution, attached hereto, that states the Board has approved the proposed sale or disposition of it's electric facilities, including a full description of the property to be sold, the purchaser thereof, the consideration to be received, along with terms and conditions, and the date on which an election shall be held, all pursuant to KRS 96.860.

Section 2. That the Monticello Electric Plant Board submitted said Resolution to the City Council of the City of Monticello, Kentucky, who subsequently approved the Resolution on January 23, 2007 at a duly convened meeting of the Council.

Section 3. That due to the fact that the electric facility is geographically surrounded without the possibility of growth, that a larger system would benefit the customers of the electric facility through better bargaining and purchasing power that could lead to better rates, and that a larger system would provide faster and more reliable service in the unfortunate event of a disaster, the Monticello City Council hereby declares the sale to be desirable.

Section 4. That the question as to the sale or disposition of the Monticello Electric Plant Board electric facility shall be submitted to the qualified voters of the City of Monticello at the next regular election, said election to be held November 6, 2007.

Section 5. That the question posed to the qualified voters shall be: "Are you in favor of the sale or disposition of the Monticello electric plant, for the consideration of \$4,686,000.00 (four million six hundred eight-six thousand dollars)." Said voters shall indicate a "Yes" or "No" vote.

Section 6. That this ordinance shall be certified to the county clerk by the second Tuesday of August 2007.

Section 7. That the Mayor shall advertise said election and the object thereof pursuant to KRS Chapter 424, also by printed handbills posted in not less that four (4) conspicuous places in each voting precinct in the City of Monticello and at the courthouse door. All qualified voters of the City of Monticello shall be privileged to vote at said election.

Section 8. That this ordinance shall take effect immediately upon its adoption and publications as required by Kentucky Statute.

**PUBLICLY READ, APPROVED, AND ADOPTED** at a duly convened meeting of the City Council of the City of Monticello, Kentucky held this \_\_\_\_\_ day of \_\_\_\_\_ 2007.

**APPROVED:**

\_\_\_\_\_  
**Kenneth D. Catron, Mayor**

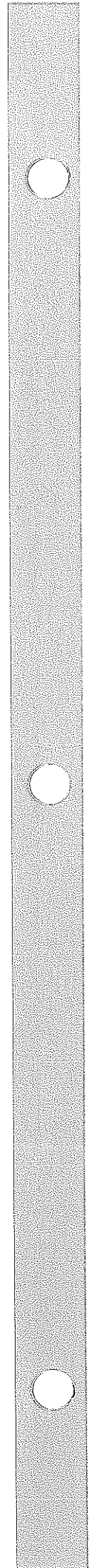
**ATTEST:**

\_\_\_\_\_  
**Gregory E. Latham**  
**City Clerk/Treasurer**

**FIRST READING:** \_\_\_\_\_

**SECOND READING:** \_\_\_\_\_

**PUBLICATION:** \_\_\_\_\_





United States Department of Agriculture  
Rural Development

JAN - 3 2007

Mr. Allen Anderson  
President and Chief Executive Officer  
South Kentucky Rural Electric  
Cooperative Corporation  
P.O. Box 910  
Somerset, Kentucky 42502-0910

Dear Mr. Anderson:

This letter is in response to your questions regarding the purchase of the electric distribution system owned and operated by the Monticello Electric Plant Board (MEPB) raised in a recent teleconference between yourself, East Kentucky Power Cooperative, National Rural Utilities Cooperative Finance Corporation (CFC), and this office on December 14, 2006.

As of December 31, 2004, South Kentucky's reported net utility plant was \$104,746,813. As we understand, the appraised value of the plant owned by MEPB is between \$3.7 and \$4.5 million which is less than 10 percent of the net utility plant owned and operated by South Kentucky RECC (South Kentucky). Prior approval may not be required for the acquisition if you select an alternative to Utilities Programs (RP) financing. Please refer to 7 CFR § 1717.606 if you intend to proceed with the acquisition. Based on the information exchanged during our teleconference, this acquisition may be financed with the RP loan funds.

A related question was whether East Kentucky Power Cooperative (EKPC) could supply the power for this acquisition under the terms of the mortgage agreement with the Rural Development Electric Programs. The amount of power needed to supply Monticello represents about one percent of EKPC's capacity. We will consider this power requirement incidental to EKPC's total requirement and see no problem with EKPC providing power to Monticello through South Kentucky RECC.

If there are other questions that surface during your negotiations with MEPB, please give me a call at (202) 720-9545.

Sincerely,

James R. Newby  
Assistant Administrator  
Electric Programs

cc: Mr. Pallen, Joe Badin, Mike Norman, Richard Larochelle

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

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