



Rural Electric Cooperative Corporation

A Touchstone Energy® Cooperative 

January 16, 2006

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JAN 18 2006

PUBLIC SERVICE
COMMISSION


MS BETH O'DONNELL
EXECUTIVE DIRECTOR
PUBLIC SERVICE COMMISSION
PO BOX 615
FRANKFORT KY 40602

RE: PSC CASE NO. 2005-00492

Dear Ms. O'Donnell:

Please find enclosed an original and five (5) copies of our response to the first data request dated December 21, 2005 in the above referenced case.

Sincerely,



O. V. Sparks
Vice President Administration & Finance

OVS/af1

Enclosures

CASE NO. 2005-00492

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FIRST DATA REQUEST OF COMMISSION STAFF
TO NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION
(Dated 12-21-2005)

PUBLIC SERVICE
COMMISSION

1. Proposed \$7MM line of credit:
 - a. Why seeking approval of \$7MM line of credit with explanation of status of previously approved \$3MM line of credit.

Nolin's general corporate line of credit was increased to \$7MM in 1998 to support the increased working capital needs of the cooperative. This new facility, number 5101, was issued for a term of 23 months with an annual pay down provision. As this and subsequent lines of credit matured, they were replaced with new 23-month lines of credit.

Nolin is now seeking approval of the \$7MM line of credit because the term of the requested line of credit exceeds the 23-month period. (Facilities with terms of less than 24 months do not require commission approval.) Rather go through the renewal process every 23-months, Nolin is requesting to put a perpetual facility in place at CFC which will automatically renew each year with no additional paperwork or attorney requirements. This perpetual facility will contain an annual pay down provision.
 - b. Determination of \$7MM amount.

The qualifying amount of the line of credit is determined using the following formula:

$\frac{1}{12}$ of Annual Total Operation and Maintenance Expenses + Annual Plant Additions

Based on Nolin's 2004 data, the formal qualifying amount would be \$6.5MM. CFC is comfortable with the \$7MM amount based on:

 - The tenure of the \$7MM amount
 - The cooperative's payment history
 - Total unsecured debt being less than 50% of the cooperative's total equity
2. Terms and conditions of proposed \$7MM line of credit
See Exhibit 1.
3. Copies of the perpetual line of credit agreement.
See Exhibit 2.



**National Rural Utilities Cooperative Finance Corporation
Perpetual Line of Credit Agreement
("Agreement")**

Name of Borrower: Nolin Rural Electric Cooperative Corporation

Address: 411 Ring Road, Elizabethtown, Kentucky 42701-6767

National Rural Utilities Cooperative Finance Corporation ("CFC"), a District of Columbia corporation, has approved Borrower for a revolving line of credit loan in an amount not to exceed Seven Million and No/100 Dollars (\$7,000,000.00) (hereinafter referred to as the "CFC Commitment"). Borrower hereby agrees that the terms and conditions herein, plus any additional terms and conditions agreed to in writing by the parties, shall constitute a valid and binding agreement between Borrower and CFC. In consideration of their mutual promises hereunder and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, CFC and Borrower agree to the following terms and conditions:

- 1. Revolving Credit and Term.** CFC agrees to advance funds to the Borrower pursuant to the terms and conditions hereof (each such advance of funds is referred to herein as an "Advance"), provided, however, that the amount at any time outstanding under this line of credit shall not exceed the CFC Commitment. The Borrower may borrow, repay and reborrow funds at any time or from time to time for a period up to twelve (12) months from the effective date hereof. This Agreement shall thereafter automatically renew for subsequent periods of twelve (12) months each. Either party may terminate this Agreement at the end of any period by providing written notice to the other party at least ninety (90) days prior to the expiration of such period.

Notwithstanding the automatic renewal provisions of the paragraph above, and if not sooner terminated pursuant thereto, all principal amounts outstanding and accrued, but unpaid interest thereon, shall be due and payable in full within twenty-three (23) months of the Effective Date, unless Borrower submits to CFC copies of all necessary regulatory approvals, including, but not limited to, that of the Kentucky Public Service Commission, in form and substance satisfactory to CFC, which evidence approval for Borrower to maintain this line of credit as an automatically renewing line of credit beyond the date twenty-three (23) months from the Effective Date hereof.

2. **Requisitions.** Requests for Advances shall be in such written form as CFC may reasonably require from time to time.
3. **Interest Rate and Payment.** The Borrower unconditionally promises and agrees to pay, as and when due, interest on all amounts advanced hereunder from the date of each Advance and to repay all amounts advanced hereunder with interest on the date this Agreement terminates as provided herein. Interest shall be due and payable in accordance with CFC's regular billing cycles as may be in effect from time to time. CFC shall send a payment notice to the Borrower at least five days prior to the due date of any interest payment. All amounts shall be payable at CFC's main office at Woodland Park, 2201 Cooperative Way, Herndon, Virginia 20171-3025 or at such other location as designated by CFC from time to time. The interest rate on all Advances will be equal to the total rate per annum as may be fixed by CFC from time to time, which shall not exceed the Prevailing Bank Prime Rate (as defined herein), plus one percent per annum. Interest will be computed on the basis of a 365 day year for the actual number of days that any Advance is outstanding. The effective date of an interest rate adjustment will be determined from time to time by CFC, provided that no such adjustment may be effective on a date other than the first or sixteenth day of any month, and any such adjustment shall remain in effect until any subsequent change in the interest rate occurs.

The "Prevailing Bank Prime Rate" is that bank prime rate published in the "Money Rates" column of the eastern edition of *The Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate hereof shall become effective. If *The Wall Street Journal* shall cease to be published, then the Prevailing Bank Prime Rate shall be determined by CFC by reference to another publication reporting bank prime rates in a similar manner.
4. **CFC Accounts.** CFC shall maintain in accordance with its usual practices an account or accounts evidencing the indebtedness of the Borrower resulting from each Advance and the amounts of principal and interest payable and paid hereunder. In any legal action or proceeding in respect of this Agreement, the entries made in such account or accounts (whether stored on computer memory, microfilm, payment notices or otherwise) shall be presumptive evidence (absent manifest error) of the existence and amounts of the Borrower's transactions therein recorded.
5. **Corporate and Regulatory Approvals.** Borrower represents and warrants that it has obtained any and all necessary corporate and regulatory approvals for Borrower to execute, deliver and perform its obligations under this Agreement.
6. **Reports.** During the term of this Agreement, Borrower agrees (a) to provide CFC, within 120 days of the end of Borrower's fiscal year, its annual financial statements, prepared in accordance with generally accepted accounting principles ("GAAP") and audited by an independent certified public accountant, or otherwise in form and substance satisfactory to CFC, and (b) to provide CFC with any other reports or information which CFC may from time to time reasonably request.
7. **Fees.** If any amount outstanding and due hereunder shall not be paid when due, Borrower agrees to pay on demand CFC's reasonable costs of collection or enforcement of this Agreement, or preparation therefor, including reasonable fees of counsel. If

payment of any principal and/or interest due under the terms of this Agreement is not received at CFC's office in Herndon, Virginia, or such other location designated by CFC within 5 business days after the due date thereof, then Borrower shall pay to CFC, on demand, and in addition to all other amounts due under the terms of this Agreement, any late-payment and additional interest charges as may then be in effect pursuant to CFC's then current policies without setoff or counterclaim. For purposes of this Agreement, a "business day" means a day that both CFC and the financial institution it employs for funds remittance are open for business.

8. **Limitation on Advances.** While an Advance is outstanding, CFC reserves the right to limit further Advances if the sum of (a) all Advances outstanding, (b) the amount of any further Advance requested, and (c) the total amount of Borrower's other unsecured outstanding debt, would exceed the CFC Commitment. CFC may also, in its sole discretion decline to make any Advance during any period when the Borrower is in default hereunder.
9. **Reduce Balance to Zero.** Each 12-month period while this Agreement is in effect, Borrower shall, for a period of at least five consecutive business days, reduce to zero all amounts outstanding hereunder. Borrower shall make the first balance reduction within 360 days of the first Advance hereunder. Each subsequent balance reduction shall be made within 360 days of the last day of such five-day period.
10. **Credit Support.** With CFC's prior written approval, this Agreement may be used as credit support for other financings.
11. **Notices, Acceleration of Debt and Waivers.** While an Advance is outstanding, Borrower agrees to notify CFC in writing of (a) any delinquency or default on any of its financial obligations, (b) any material adverse change in its financial or business condition, and (c) if any representation or warranty made in this Agreement is no longer true in any material respect. If any delinquency, default, or any other event as a result of which any holder of indebtedness may declare the same due and payable shall occur and continue uncorrected for more than any applicable grace period, or any representation or warranty herein shall no longer be true, or Borrower shall fail to perform or to comply with any term of this Agreement, or if the financial condition of Borrower shall have changed to the extent that such change, in the reasonable judgment of CFC, materially increases CFC's risk of repayment hereunder, then CFC may declare at any time all outstanding principal, interest and other amounts due hereunder immediately due and payable in full with accrued interest, without presentment or demand, and may withhold Advances. The Borrower waives the defense of usury and all rights to setoff, counterclaim, deduction or recoupment.
12. **Survival of Representations and Warranties and Payment Obligations.** Borrower agrees that its obligation to repay principal, interest and all other amounts due hereunder, and the representations and warranties made herein, shall survive termination of this Agreement. Borrower further agrees that such repayment obligations shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Borrower is rescinded, set aside or must be otherwise restored, whether as a result of any proceeding in bankruptcy or reorganization or otherwise.

- 13. Representations and Warranties.** Borrower represents and warrants that as of the date of its application for this line of credit, and on the date of each Advance hereunder:
- a) the Borrower is not in default of any of its financial obligations;
 - b) there has been no material adverse change in the Borrower's business or financial condition from that set forth in its most recent audited financial statements;
 - c) no litigation is pending or, to the best of Borrower's knowledge, threatened against the Borrower which, if adversely determined, would have a material adverse effect on the Borrower's ability to perform under this Agreement;
 - d) the information contained in Borrower's audited financial statements, its other financial reports and information otherwise submitted in connection with this Agreement is complete and accurate, and said financial statements and financial reports fairly represent the financial condition of the Borrower as of the dates reflected thereon;
 - e) the execution, delivery and performance of this Agreement has been duly authorized by the Borrower, which authorization has not been rescinded or modified; and
 - f) all Advances hereunder will be used only for proper corporate purposes.
- 14. Conditions of Lending.** As a condition to CFC making Advances hereunder, each of the following conditions shall be satisfied at the time of each Advance:
- a) CFC shall have received the Borrower's most recent annual financial statements, prepared in accordance with GAAP and audited by an independent certified public accountant, or otherwise in form and substance satisfactory to CFC;
 - b) all representations and warranties set forth herein shall be true and correct; and
 - c) the Borrower shall have obtained any and all necessary corporate, regulatory and governmental approvals for the Borrower to execute, deliver and perform its obligations under this Agreement.
- 15. GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.**
- (a) **THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.**
 - (b) **BORROWER HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN**

SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(c) EACH OF THE BORROWER AND CFC HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

- 16. Severability.** *If any term, provision or condition, or any part thereof, of this Agreement shall for any reason be found or held invalid or unenforceable by any court or governmental agency 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 shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained herein.*
- 17. Setoff.** *Upon the occurrence and during the continuance of any default, CFC 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 CFC 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. CFC 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 CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have.*
- 18. Additional Terms and Conditions.** *Additional terms and conditions as set forth herein or attached hereto are an integral part of this Agreement.*
- 19. Termination and Cancellation of Existing Agreement.** *Borrower agrees that its existing line of credit No. KY051-R-5104 with CFC and any agreement(s) relating thereto shall be terminated and any outstanding principal, interest and other amounts outstanding thereunder shall be transferred to the line of credit established pursuant to this Agreement and deemed an Advance hereunder.*
- 20. Miscellaneous.** *(a) This Agreement contains the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby, and no other agreement, statement or promise made in connection with this line of credit by any party hereto, or by any employee, officer, agent or attorney of any party hereto which is not contained herein shall be valid and binding. (b) Any amendment to this Agreement must be in writing signed by both parties. (c) No failure or delay by CFC in exercising any right or remedy hereunder shall operate as a waiver or preclude the future exercise thereof or of any other right or remedy. (d) If any payment is due from Borrower on a day which CFC is not open for business, then such payment shall be made on the next succeeding day on which CFC is open for business.*
- 21. 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 personally delivered or, in the case of a telecopied or mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are as follows:

CFC:

National Rural Utilities
Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Attention: Senior Vice President - Member Services
Fax: (703) 709-6776

The Borrower:

Nolin Rural Electric Cooperative Corporation
411 Ring Road
Elizabethtown, Kentucky 42701-6767
Attention: General Manager
Fax: (270) 735-1062

22. Additional Terms and Conditions.

Prior to, and as a condition of making the initial Advance hereunder, CFC shall have been furnished with:

- (a) certified copies, satisfactory to CFC, of all such corporate documents and proceedings of the Borrower authorizing the transactions hereby contemplated as CFC shall require; and
- (b) an opinion of counsel for Borrower addressing such legal matters as CFC shall reasonably require.

Name of Borrower: NOLIN RURAL ELECTRIC COOPERATIVE CORPORATION

Signed By: _____

Title: _____

Date Signed: _____

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

By: _____ Loan Number: KY051-P-5106
Assistant Secretary-Treasurer

(To be filled in by CFC) The effective date of this Agreement is:_____.

**CFC TERM SHEET FOR
NOLIN RURAL ELECTRIC
COOPERATIVE CORPORATION (“NOLIN”)**

LOAN TYPE:	Perpetual Line of Credit.
LOAN PURPOSE:	General corporate/working capital.
LOAN AMOUNT:	\$7 million.
LOAN SECURITY:	Unsecured.
LOAN TERM:	Perpetual. Annually Renewing.
AMORTIZATION:	Interest only with an annual pay down provision. Interest is billed monthly. Borrower is required to meet a five-day rest provision once during each twelve-month period that the agreement is in effect (described in item 9 in the perpetual line of credit agreement).
INTEREST RATES:	Standard CFC line of credit rate. CFC typically sets line of credit rate at the beginning of each month.
EQUITY PURCHASE:	N/A for lines of credit.
FEES:	There are no fees associated with the line of credit.
PATRONAGE CAPITAL:	Nolin shall receive patronage capital in accordance with CFC’s policies in effect at the time of retirement. Currently, CFC retires 70 percent of a current year’s allocation within 90 days after the close of its fiscal year. The remaining 30 percent is retired 15 years thereafter. If a loan is used to purchase LCTCs, that loan is not eligible to earn patronage capital.
SUPPORTING DATA (application materials):	<ul style="list-style-type: none">• Audited Financial Statements for the three proceeding years, if not already submitted.• Interim financial statement for the most recent year-to-date period, if not already submitted.• Any other information that CFC may require at the time of loan application, as required for due diligence.

**CFC TERM SHEET FOR
NOLIN RURAL ELECTRIC
COOPERATIVE CORPORATION (“NOLIN”)**

**CONDITIONS
PRECEDENT TO
CLOSING:**

Including, but not limited to:

- Receipt and review of application materials and final loan approval by CFC.
- Completion of mutually agreeable loan documentation to include terms, covenants, representations, warranties, defaults and remedies, and other supporting documentation typical for this type of financing.
- Receipt of applicable commission approval.

NOT A COMMITMENT TO LEND - FOR DISCUSSION PURPOSES ONLY