



Blue Grass Energy Cooperative Corporation

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PUBLIC SERVICE
COMMISSION

May 18, 2006

Beth O'Donnell, Executive Director
Kentucky Public Service Commission
P O Box 615
Frankfort Kentucky 40602

Dear Ms. O'Donnell,

We are filing the original and five (5) copies of information as requested by the Public Service Commission's first data request concerning Case No. 2006-00167. This request concerns the application for Blue Grass Energy Cooperative Corporation to obtain a loan in the amount of \$525,000.00 from CFC.

If you have any questions, please contact me at (859) 885-2118. As always, your continued assistance and cooperation is appreciated.

Sincerely,

A handwritten signature in cursive script, reading "J. Donald Smothers".

J. Donald Smothers
Vice President, Financial Services

- 1a. Harshaw Trane contacted the Blue Grass Army Depot about energy management services and then contacted Blue Grass Energy about financing the project. They are currently participating in this type of service with Nolin RECC. Since we are very interested in energy management projects, we reviewed the Depot project. We talked with Nolin about their success and informed Trane that we would be interested in a meeting between the three parties, Trane, Blue Grass Army Depot and Blue Grass Energy. Trane, then, presented us with a contract. After attorney review and board approval we agreed to participate.

- 1b. As of April 30, 2006 Blue Grass Energy has not performed any work under the ECMS at the Blue Grass Army Depot.

Witness: Harold Cornett

- 2a. At this time a proposal has been submitted to the U S government but no bid has been awarded. The U S government has decided to review the privatization bid process and has delayed awarding the bid until 2009 or later.

- 2b. The decision on funding will be made when the bid is awarded.

- 2c. The U S Army is re-evaluating the privatization process and will not make a decision until 2009 or later.

Witness: Donald Smothers

- 3a. Response same as 1a. It is our understanding that Trane is the contractor of choice by the Blue Grass Army Depot.
- 3b. A project with the Blue Grass Army Depot was negotiated last year. Trane signed a contract and sent to us for signature. That project was cancelled by the Blue Grass Army Depot. So, we did not sign the agreement until the current project was negotiated.
- 3c. Yes.

Witness: Harold Cornett

- 4a. The potential risk associated with the ECMS is very low in our opinion due to the fact that the contract is with the U S government. This contract is relatively small compared to this type of contract at other Cooperatives such as Nolin RECC. Based on the Nolin's experience we feel this type of project will be very successful financially and, we feel, a benefit to the community.
- 4b. The Harshaw Trane contract is also a low risk project due to the fact that the only work that will be negotiated is task orders agreed to by the U S government. We will not be responsible for any financial transaction unless we agree to the task order proposed. Also, the experience of Trane with other Cooperatives such as Nolin RECC has reflected a very successful business arrangement.

Witness: Donald Smothers

- 5a. CFC responded that due to the small level of exposure, CFC is comfortable committing to an unsecured facility. This \$525,000 facility represents just 0.33% of the co-op's total assets and just 1.16% of total equity. This loan is immaterial to the overall financial condition of the cooperative
- 5b. Blue Grass Energy can choose either a fixed or variable rate at the time of advance. The decision will likely be based on how the Blue Grass Army Depot prefers to price the debt.
- 5c. The ECMS does not place any restrictions on the financing terms available to Blue Grass Energy. Blue Grass Energy can select any rate and term so long as the loan term does not exceed the term of the task order.
- 5d. The scope of work and Blue Grass Army Depot payment obligations will be detailed in each task order as they are issued. Payment terms are as follows:
1. Monthly principal payment (1/120 of the total project cost) for all completed task orders; plus
 2. Monthly interest payment billed with an interest rate adder of .25% added to the monthly CFC interest rate in effect.
 3. Blue Grass Energy will also be permitted to charge a 7% management fee.
- 5e. CFC responded that the purchase of LCTC's is not based on a cooperative's financial ratio but rather a CFC leverage ratio. If a borrower's CFC leverage ratio exceeds 8:1, then the cooperative is required to purchase LCTC's in an amount equal to 2% of the loan amount. On a \$525,000 loan, the LCTC requirement would be \$10,500.
- 5f. LCTC's are not recoverable under the terms of the contract. LCTC's are refunded to the borrower within 90 days of total loan repayment/prepayment.

Witness: Donald Smothers

6. Yes, the depot will have ownership.

Witness: Donald Smothers

7a. Yes, the Depot is a current electric consumer of Blue Grass Energy.

7b. Blue Grass supplies electricity to a lighting facility only.

7c. No, the lighting facility is in the Blue Grass Energy service territory.

Witness: Donald Smothers