




Cumberland Valley Electric

A Touchstone Energy Cooperative 

September 26, 2006

Beth A. O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
PO Box 615
Frankfort KY 40602-0615

RECEIVED

SEP 27 2006

**PUBLIC SERVICE
COMMISSION**

RE: Cumberland Valley Electric, Inc.
Application Regarding Perpetual
Line of Credit

Case No. 2006-00474

Dear Ms. O'Donnell:

Please find enclosed an original and 12 copies of an Application on behalf of Cumberland Valley Electric, Inc. to receive approval of a Perpetual Line of Credit in the amount of \$5,000,000. Our current line of credit will expire on November 24, 2006. Thank you for your consideration in this matter.

Sincerely,



Ted Hampton
General Manager

Enclosures

Ted Hampton • President & CEO

P.O. Box 440 • Gray, KY 40734

Phone: (606) 528-2677 • (606) 546-9295 • 1-800-513-2677 • FAX: (606) 528-8458

RECEIVED
SEP 27 2006
PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE
PUBLIC SERVICE COMMISSION

APPLICATION OF THE CUMBERLAND VALLEY)
ELECTRIC, INC. AN ORDER PURSUANT TO K.R.S.)
278.300 AND 807 K.A.R. 5:001. SECTION 11 AND)
RELATED SECTIONS AUTHORIZING THE)
COOPERATIVE TO OBTAIN A PERPETUAL LINE)
OF CREDIT NOT TO EXCEED \$5,000,000.00 AT ANY)
ONE TIME FROM THE NATIONAL RURAL)
UTILITIES COOPERATIVE FINANCE)
COOPERATION)

CASE No. 2006-00474

APPLICATION

The application of Cumberland Valley Electric, Inc. respectfully shows:

1. Cumberland Valley Electric, Inc. is a nonprofit membership cooperative corporation without capital stock, duly organized and existing under K.R.S. Chapter 279, engaged in the business of supplying electric energy to its member-consumers in the Kentucky counties of Bell, Clay, Harlan, Knox, Laurel, Leslie, Letcher, McCreary, and Whitley.
2. The name and postal address of the Applicant is as follows:

CUMBERLAND VALLEY ELECTRIC, INC.
P O BOX 440
GRAY, KENTUCKY 40734
3. The Articles of Incorporation and all but one of the amendments thereto for Cumberland Valley Electric, Inc. were filed with the Commission in PSC Case No. 7772, Application to Increase Basic Retail Electric Rates. Cumberland

Valley Electric, Inc.'s name change amendment was filed in Case No. 2005-00187, Application for an Adjustment of Rates.

4. A general description of Applicant's property in the field of its operation, together with the statement of the original cost of the property and the cost to the Applicant follows:

Cumberland Valley Electric, Inc.'s property consists of approximately 2,548.28 miles of electric distribution line and other properties necessary and incidental to the operation of its system in the foregoing counties. The original cost of the Applicant's property as of July 31, 2006, is as follows:

Total utility plant: \$67,439,149.

5. The Applicant further states that:
 - a. No amount or kinds of stock are authorized by the Corporation.
 - b. No amount or kinds of stock are issued or outstanding.
 - c. No preferred stock has been issued or is outstanding.
 - d. Exhibit 1, which is attached, lists the outstanding notes secured by mortgages which have been executed by Cumberland Valley Electric, Inc. as Mortgagor and delivered to the United States of America, the Federal Financing Bank and the National Rural Utilities Cooperative Finance Corporation as Mortgagees as of the date of this Application. The balance outstanding on these notes as of July 31, 2006, is as shown in Exhibit 1.
 - e. No bonds are authorized or issued.

- f. Cumberland Valley Electric, Inc. has no other indebtedness, except current liabilities which occur in the ordinary course of business and which are unsecured.
 - g. No dividends have been paid by the Corporation.
6. The use to be made of the proceeds from this line of credit is as follows:
to obtain loan funds quickly for any temporary shortfalls of cash, while awaiting permanent financing.
 7. At this time, it is not anticipated that any property is to be acquired, constructed, improved, or extended with the proceeds from this loan.
 8. At this time, it is not proposed to discharge or refund any obligations with the proceeds from this loan.
 9. The Applicant's Income Statement for the 12 month period ended July 31, 2006, is attached as Exhibit 2 and its Balance Sheet is attached as Exhibit 3.
 10. The mortgage agreement was filed in PSC Case Number 2005-00187 and Number 2003-00026.
 11. The approval of the loan from the National Rural Utilities Cooperative Finance Corporation is attached as Exhibit 4.
 12. The Resolution which the Board of Directors will use to approve this loan is attached as Exhibit 5.
 13. Cumberland Valley Electric, Inc. is seeking approval of the \$5,000,000 perpetual line of credit. Cumberland Valley Electric, Inc. currently has a line of credit, number 5102, with The National Rural Utilities Cooperative Finance Corporation, which was issued for a term of 23 months with an annual pay

down provision. This line of credit did not require Commission approval because its term was less than 24 months.

Cumberland Valley Electric, Inc. is now seeking approval of the \$5,000,000 line of credit because it is perpetual and would exceed the 23-month period. Rather than set up a new line of credit every 23 months, Cumberland Valley Electric, Inc. is requesting to put in place a perpetual facility which will automatically renew each year. This will reduce paperwork and labor requirements. The perpetual facility will contain an annual pay down provision.

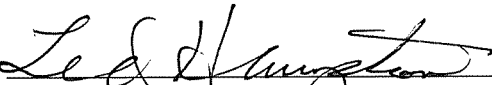
Cumberland Valley Electric, Inc.'s work plans over the last several years has averaged under \$5,000,000 annually. The \$5,000,000 represents about 50 percent of the four-year work plans.

14. The terms and conditions of the proposed \$5,000,000 perpetual line of credit are shown in Exhibit 6.
15. A copy of the perpetual line of credit agreement is shown in Exhibit 7.


WHEREFORE, Cumberland Valley Electric, Inc. requests that the Public Service Commission of the Commonwealth of Kentucky issue an Order authorizing and granting unto Cumberland Valley Electric, Inc. approval for a perpetual line of credit not to exceed \$5,000,000 at any one time from the National Rural Utilities Cooperative Finance Corporation and all other relief to which the Applicant may be entitled.

Dated at Gray, Kentucky, this 26th day of September, 2006.

CUMBERLAND VALLEY ELECTRIC, INC.

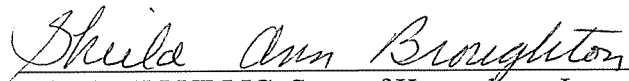
By: 
Ted Hampton, General Manager

W. PATRICK HAUSER, ATTORNEY AT LAW


W. Patrick Hauser, Attorney

STATE OF KENTUCKY
COUNTY OF KNOX

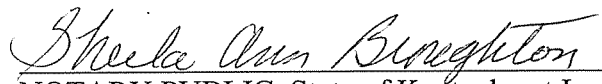
I, the undersigned, a Notary Public, do hereby certify that on this 26th day of September, 2006, personally appeared before me Ted Hampton, who being by me first duly sworn, subscribed to and acknowledged that he is the General Manager of Cumberland Valley Electric, Inc., a Kentucky corporation, that he signed the foregoing document as General Manager of the corporation, and that the statements therein contained are true.


NOTARY PUBLIC, State of Kentucky at Large

My commission expires 11-15-09.

STATE OF KENTUCKY
COUNTY OF KNOX

I, the undersigned, a Notary Public, do hereby certify that on this 26th day of September, 2006, personally appeared before me W. Patrick Hauser, who being by me first duly sworn, subscribed to and acknowledged that he is the Attorney for Cumberland Valley Electric, Inc., a Kentucky corporation, that he signed the foregoing document as Attorney for the corporation, and that the statements therein contained are true.


NOTARY PUBLIC, State of Kentucky at Large

My commission expires 11-15-09.

CUMBERLAND VALLEY ELECTRIC - LOAN PORTFOLIO AS OF JULY 31, 2006

Note Number	Current Interest Rate	Loan Date	Original Balance	Current Balance	Fixed or Variable	Final Maturity Date*	Renewal Period	Reprice Year
RUS: (RURAL UTILITIES SERVICE)								
OB180	2.000%	8/3/72	\$437,000.00	\$18,004.94	F	8/3/07	N/A	N/A
1B190	5.000%	9/14/73	\$506,000.00	\$67,176.34	F	9/14/08	N/A	N/A
1B200	5.000%	6/24/74	\$630,000.00	\$109,908.54	F	6/24/09	N/A	N/A
1B210	5.000%	6/13/75	\$754,000.00	\$171,077.66	F	6/13/10	N/A	N/A
1B220	5.000%	6/23/76	\$754,000.00	\$208,696.02	F	6/23/11	N/A	N/A
1B230	5.000%	5/6/77	\$1,066,000.00	\$333,181.30	F	5/6/12	N/A	N/A
1B240	5.000%	1/13/78	\$1,065,000.00	\$369,352.34	F	1/13/13	N/A	N/A
1B250	5.000%	1/11/79	\$2,036,000.00	\$795,905.06	F	1/11/14	N/A	N/A
1B260	5.000%	1/22/82	\$1,498,000.00	\$751,140.44	F	8/19/16	N/A	N/A
1B270	5.000%	10/5/87	\$1,575,000.00	\$1,012,832.96	F	2/13/21	N/A	N/A
1B280	5.000%	3/2/92	\$2,989,000.00	\$2,273,977.56	F	5/21/25	N/A	N/A
1B290	5.375%	12/1/97	\$1,646,000.00	\$1,487,496.22	F	6/2/32	N/A	N/A
1B295	5.000%	11/12/98	\$1,646,000.00	\$1,475,689.52	F	6/2/32	N/A	N/A
1B300	2.750%	8/10/00	\$1,410,000.00	\$1,267,930.14	V	3/1/35	1 year loan	8/31/2007
	Advanced Payment			-\$909,562.04				
				\$9,432,807.00				

FFB: (FEDERAL FINANCING BANK)								
H0010	5.026%	3/20/01	\$4,200,000.00	\$3,816,176.73	V	12/31/34	Quarterly	10/2/2006
H0015	5.026%	7/1/03	\$4,887,000.00	\$4,583,222.81	V	12/31/34	Quarterly	10/2/2006
H0020	5.026%	7/13/04	\$2,200,000.00	\$2,174,519.94	V	12/31/37	Quarterly	10/2/2006
H0025	5.026%	2/2/05	\$2,000,000.00	\$1,976,836.30	V	12/31/37	Quarterly	10/2/2006
H0030	5.026%	10/27/05	\$3,000,000.00	\$2,957,820.21	V	12/31/37	Quarterly	10/2/2006
				\$15,508,575.99				

CFC: (NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION)								
9001	7.000%	4/1/72	\$109,000.00	\$9,950.13	F	11/3/07	35 Year Loan	N/A
9003	7.000%	4/1/73	\$217,000.00	\$34,459.42	F	9/14/08	35 Year Loan	N/A
9004	7.000%	4/1/74	\$270,000.00	\$55,743.84	F	6/24/09	35 Year Loan	N/A
9007	7.150%	8/1/75	\$324,000.00	\$87,056.46	V	6/13/10	Monthly	8/1/2006
9008	7.150%	4/1/76	\$324,000.00	\$103,147.58	V	6/23/11	Monthly	8/1/2006
9010	5.750%	3/1/77	\$457,000.00	\$175,961.03	F	5/6/12	7 Year Loan	N/A
9012	5.900%	11/1/78	\$457,000.00	\$193,064.34	F	1/13/13	8 Year Loan	N/A
9014	6.450%	1/1/79	\$873,000.00	\$427,687.58	F	1/11/14	7 Year Loan	1/1/2013
9017	7.150%	1/1/82	\$676,000.00	\$395,199.04	V	8/19/16	Monthly	8/1/2006
9018	7.150%	1/1/89	\$675,000.00	\$452,451.99	V	2/13/21	Monthly	8/1/2006
9019	7.150%	12/1/93	\$1,281,000.00	\$954,268.19	V	5/21/25	Monthly	8/1/2006
9020	7.150%	4/1/98	\$1,411,000.00	\$1,292,355.91	V	6/2/32	Monthly	8/1/2006
9021	7.150%	8/1/00	\$604,000.00	\$580,259.99	V	3/1/35	Monthly	8/1/2006
				\$4,761,605.50				

OUTSTANDING LOAN BALANCE \$29,702,988.49

CUMBERLAND VALLEY ELECTRIC
STATEMENT OF OPERATIONS
FOR THE TWELVE MONTHS ENDED JULY 31, 2006

EXHIBIT 2
PAGE 1 OF 1

Operating Revenue	\$38,548,812
Cost of Purchased Power	\$29,288,480
Distribution Expense - Operation	\$1,333,976
Distribution Expense - Maintenance	\$1,922,080
Consumer Accounts Expense	\$1,254,848
Customer Service & Informational Expense	\$200,777
Administrative & General Expense	\$1,209,065
Total Operation & Maintenance Expense	\$35,209,226
Depreciation Expense	\$2,182,527
Tax Expense - Other	\$36,062
Interest on Long Term Debt	\$1,442,469
Interest Expense - Other	\$58,914
Other Deductions	\$66,068
Total Cost of Electric Service	\$38,995,266
Patronage Capital & Operating Margins	-\$446,454
Non Operating Margins - Interest	\$142,572
Income (Loss) from Equity Investments	\$0
Non Operating Margins - Other	\$0
Other Capital Credits & Patronage Dividends	\$51,913
Generation & Transmission Capital Credits	\$0
Patronage Capital or Margins	-\$251,969

BALANCE SHEET
FOR THE PERIOD ENDING JULY 2006

EXHIBIT 3
PAGE 1 OF 1

	<u>2006</u>
Total Utility Plant in Service	\$67,199,848
Construction Work in Progress	\$239,301
Total Utility Plant	\$67,439,149
Accum. Provision for Depreciation	\$24,564,366
Net Utility Plant	\$42,874,783
Investments in Subsidiary Companies	\$0
Invest. In Assoc. Org. - Patronage Capital	\$9,507,445
Invest. In Assoc. Org. - Nongeneral Funds	\$883,132
Invest. In Economic Development	\$0
Other Investments	\$0
Special Funds	\$0
Total Other Property & Investments	\$10,390,577
Cash - General Funds	\$284,575
Cash - Special Construction Funds	\$0
Special Deposits	\$4,000
Temporary Investments	\$105,000
Notes Receivable	\$0
Accounts Receivable - Electric	\$3,950,137
Accounts Receivable - Other	\$209,388
Materials & Supplies	\$423,662
Prepayments	\$130,333
Other Current & Accrued Liabilities	\$264,765
Total Current & Accrued Liabilities	\$5,371,860
Regulatory Assets	\$638,980
Deferred Debits	\$33,692
Total Assets & Other Debits	<u>\$59,309,892</u>
Memberships	\$411,630
Patronage Capital	\$22,662,957
Operating Margins - Current Year	-\$51,167
Non-Operating Margins	\$74,706
Other Margins & Equities	\$76,706
Total Margins & Equities	\$23,174,832
Long Term Debt - RUS	\$9,432,807
Long Term Debt - RUS - Economic	\$0
Long Term Debt - RUS Guaranteed - FFB	\$15,508,576
Long Term Debt - Other	\$4,761,603
Total Long Term Debt	\$29,702,986
Accum. Operating Provisions	\$1,415,407
Total Other Noncurrent Liabilities	\$1,415,407
Notes Payable	\$0
Accounts Payable	\$2,791,106
Consumer Deposits	\$785,250
Other Current & Accrued Liabilities	\$1,320,015
Total Current & Accrued Liabilities	\$4,896,371
Deferred Credits	\$120,296
Total Liabilities & Other Credits	<u>\$59,309,892</u>

Via E-mail

August 17, 2006

Barbara Elliott
Cumberland Valley Electric, Inc.
PO Box 440
Gray, KY 40734

Re: Loan Designation: KY057-P-510

Dear Ms. Elliott:

We are pleased to inform you that National Rural Utilities Cooperative Finance Corporation ("CFC") has approved a \$5 million perpetual line of credit for your cooperative.

The loan documents will be sent to your cooperative under separate cover for execution.

CFC's loan commitment is dependent upon the execution of the CFC loan documents by your cooperative, as well as their receipt and acceptance by CFC. Once your loan documents are received at CFC, we will notify you promptly regarding the status of your loan.

If you have any questions, please contact me at 1-800 424 2954 x 6783. We, at CFC, appreciate the opportunity to do business with you and look forward to serving your financial needs in the future.

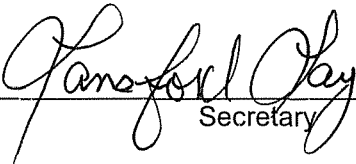
Sincerely,

Amy S. Luongo

Amy S. Luongo
Associate Vice President

IN WITNESS WHEREOF I have hereunto set my hand and affixed the seal of the Cooperative
this

14th day of September, 2006


Secretary

(SEAL)

**CFC TERM SHEET FOR
CUMBERLAND VALLEY ELECTRIC, INC.
(THE “BORROWER”)**

- LOAN TYPE:** Perpetual Line of Credit.
- LOAN PURPOSE:** General corporate/working capital.
- LOAN AMOUNT:** \$5 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 10 of 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:** The Borrower 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):**
- Audited Financial Statements for the three preceding 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
CUMBERLAND VALLEY ELECTRIC, INC.
(THE "BORROWER")**

**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

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

Name of Borrower: Cumberland Valley Electric, Inc.

Address: P. O. Box 440, U.S. 25 East, Gray, Kentucky 40734

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 Five Million Dollars (\$5,000,000.00) (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.
- 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. **Mandatory Prepayment.** If (a) there is a change in the Borrower's corporate structure (including without limitation by merger, consolidation, conversion or acquisition), and (b) after giving effect to such change, Borrower (i) would not be eligible to receive a loan or commitment for a loan from the Rural Utilities Service or any successor agency, or (ii) would no longer engage in the furnishing of utility services to its members and patrons for their use as ultimate consumers, then upon the effective date of such change, the Borrower shall prepay the outstanding principal balance of all Obligations, together with any accrued but unpaid interest thereon, any unpaid costs or expenses provided for herein, and a prepayment premium prescribed by CFC pursuant to its policies of general application in effect from time to time.

"**Obligations**" shall mean any and all liabilities, obligations or indebtedness owing by the Borrower to CFC, of any kind or description, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

5. **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.
6. **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.
7. **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.

8. **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.
9. **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.
10. **Paydown Requirement.** For each 12-month period while this Agreement is in effect, Borrower shall, for a period of at least five consecutive business days, pay down the entire outstanding principal balance on this line of credit ("Paydown"). Borrower shall make the initial Paydown within 360 days of the first Advance hereunder, and shall make each subsequent Paydown within 360 days of the date of the first Advance following each Paydown.
11. **Credit Support.** With CFC's prior written approval, this Agreement may be used as credit support for other financings.
12. **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.
13. **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.

14. 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;
- f) all Advances hereunder will be used only for proper corporate purposes;

15. 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.

16. 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.

- 17. 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.
- 18. 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.
- 19. Additional Terms and Conditions.** Additional terms and conditions as set forth herein or attached hereto are an integral part of this Agreement.
- 20. Termination and Cancellation of Existing Agreement.** Borrower agrees that its existing line of credit No. KY057-R-5102 with CFC, if any, 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.
- 21. 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.

- 22. 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:

Cumberland Valley Electric, Inc.
P. O. Box 440, U.S. 25 East
Gray, Kentucky 40734
Attention: General Manager
Fax: (606) 528-8458

- 23. Additional Terms and Conditions.** Prior to, and as a condition of, the initial Advance hereunder, CFC shall have received an opinion of counsel for Borrower, in form and substance acceptable to CFC.

CUMBERLAND VALLEY ELECTRIC, INC.

Signed By: _____

Title: _____

Date Signed: _____

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION

By: _____
Assistant Secretary-Treasurer

Loan Number: KY057-P-5103

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