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PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION )  
 OF BLUE GRASS ENERGY COOPERATIVE )  
 CORPORATION FOR AN ORDER AND )  
 CERTIFICATION OF PUBLIC CONVENIENCE )  
 AND NECESSITY AUTHORIZING APPLICANT )  
 (1) TO EXECUTE "SUPPLEMENTAL MORTGAGE" )  
 DATED OCTOBER 1, 2007 AND "UCC FINANCING )  
 STATEMENT" WITH NATIONAL RURAL )  
 UTILITIES COOPERATIVE FINANCE )  
 CORPORATION AND UNITED STATES OF )  
 AMERICA (RURAL UTILITIES SERVICE) )  
 PURSUANT TO KRS 278.300 AND (2) TO )  
 EXCLUDE FROM PSC JURISDICTION THE "RUS )  
 LOAN CONTRACT" AND "MORTGAGE NOTE" )  
 WITH UNITED STATES OF AMERICA (RURAL )  
 UTILITIES SERVICE) PURSUANT TO KRS 278.300 )  
 (10). )

NO. 2008-19

APPLICATION

Petitioners, BLUE GRASS ENERGY COOPERATIVE CORPORATION of Nicholasville,

Jessamine County, Kentucky states as follows:

[Note: Blue Grass Energy Cooperative Corporation is abbreviated as "BGECC" herein; Rural Utilities Service is abbreviated as "RUS" herein; United States of America is abbreviated as "USA" herein and National Rural Utilities Cooperative Finance Corporation is abbreviated as "CFC" herein].

1. Applicant is engaged in electric distribution business in the counties of Anderson,

See Case No 2004-00371  
( ATTACHED )

Bourbon, Bracken, Estill, Fayette, Franklin, Garrard, Grant, Harrison, Henry, Jackson, Jessamine, Madison, Mercer, Nelson, Nicholas, Pendleton, Robertson, Scott, Shelby, Spencer, Woodford and Washington counties of Kentucky by and under applicable federal and state laws with cost of its property (consisting of operations, building, and electrical lines, poles, vehicles and equipment) being \$179,314,782.19.

2. That the post office address of applicant is P.O. Box 990, 1201 Lexington, Road, Nicholasville, Kentucky 40356-0990.

3. Applicant is a consolidated cooperative corporation approved in Case No. 2001-246 before the Kentucky Public Service Commission as the consolidation of Blue Grass Energy Cooperative Corporation and Harrison County Rural Electric Cooperative Corporation.

4. The “Articles of Consolidation” of BGECC was filed in Case No. 2001-246 of the Kentucky Public Service Commission.

5. KRS 278.300 (1) provides in part as follows:

No utility shall issue any ... evidences of indebtedness, or assume any obligation of indebtedness of any other person until it has been authorized so to do by order of the commission. (Emphasis added).

6. Applicant is required to execute a “SUPPLEMENTAL MORTGAGE” dated as of October 1, 2007 and “UCC FINANCING STATEMENT” (See Exhibit A ) in favor of RUS and CFC as Security for a “MORTGAGE NOTE” (See Exhibit B ) to United States of America (acting through the Administrator of RUS) dated October 1, 2007 in the principal sum of \$48,824,000.00

and a “RUS LOAN CONTRACT” (See Exhibit C) dated October 1, 2007.

7. Applicant requests authorization by order of this commission to execute the “Supplemental Mortgage” dated October 1, 2007 and “UCC Financing Statement” in favor of RUS and CFC, because the said mortgage and UCC Financing Statement included CFC as a party to the mortgage and financing statement. This “Supplement Mortgage” and “UCC Financing Statement” are not subject to the exclusion of KRS 278.300 (10) as an evidence of indebtedness “subject to the supervision or control of the federal government or any agency thereof” because CFC is not controlled by the federal government or any agency thereof.

8. Applicant requests the “Mortgage Note” to RUS dated October 1, 2007 and the “RUS LOAN CONTRACT” dated October 1, 2007 be excluded from any jurisdiction or approval by this Kentucky Public Service Commission pursuant to KRS 278.300 (10) because RUS is an agency of the United States of America (federal government) and subject to exclusion by KRS 278.300 (10).

9. The purpose of the RUS loan of \$42,824,000.00 is for the construction of new distribution lines, improvements to existing system, line changes, meters, poles, and expenses of upgrading the facilities of the applicant, including the items described in the 2006-2009 Construction Work Plan approved by Kentucky Public Service Commission in Case No. 2006-00540, which is incorporated by reference herein.

10. A description of applicant’s real property was filed and is of record in PSC Case Numbers 2002-00351 and 2004-00371 which are incorporated by reference herein. Three (3)

tracts of land are excluded from the previous referenced real estate descriptions by conveyances recorded in Deed Book 297, page 540, Deed Book 297, page 264 and Deed Book 298, page 141 all recorded in the office of the Harrison County Clerk.

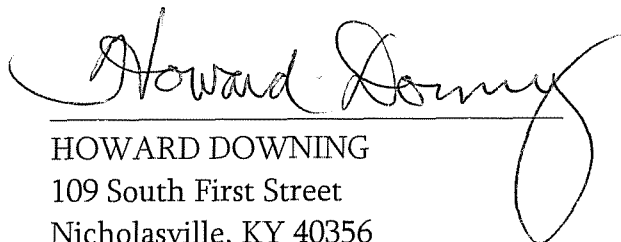
11. The financial Exhibit is attached as Exhibit D.

12. The interest paid in the twelve (12) month period ending November 30, 2007 was \$4,875,906.82.


13. The outstanding balance of BGECC's debt to RUS (and Federal Financing Bank guaranteed by RUS) is \$75,998,710.21 as of November 30, 2007.

14. The outstanding balance of BGECC's debt to CFC is \$24,384,102.75 as of November 30, 2007.

WHEREFORE, BGECC respectfully petitions and applies to this commission for an order and certification of public convenience and necessity authorizing BGECC to execute the "SUPPLEMENTAL MORTGAGE" and "UCC FINANCING STATEMENT" in favor of CFC and RUS as shown in Exhibit A and that the "MORTGAGE NOTE" as shown by Exhibit B in favor of RUS for a loan of \$42,824,000.00 and "RUS LOAN CONTRACT" be excluded pursuant to KRS 289.300 (10) because RUS is an agency of the federal government (United States of America), and for all further relief to which BGECC may appear entitled.



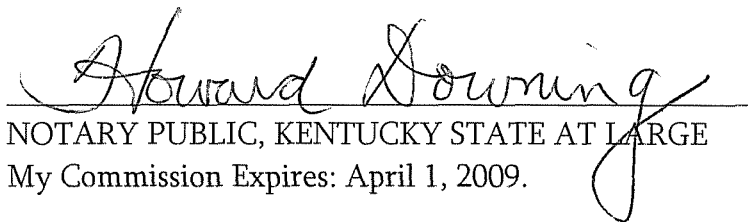
HOWARD DOWNING  
109 South First Street  
Nicholasville, KY 40356  
ATTORNEY FOR APPLICANT,  
BLUEGRASS ENERGY COOPERATIVE  
CORPORATION



DONALD SMOTHERS, VICE PRESIDENT  
BLUE GRASS ENERGY COOPERATIVE  
CORPORATION  
1201 Lexington Road  
P.O. Box 990  
Nicholasville, KY 40356-0990

STATE OF KENTUCKY     )  
COUNTY OF JESSAMINE    )

Subscribed, sworn to and acknowledged before me by Donald Smothers, Vice President  
of Blue Grass Energy Cooperative Corporation on behalf of said corporation this 11<sup>th</sup> day of  
January, 2008.

  
NOTARY PUBLIC, KENTUCKY STATE AT LARGE  
My Commission Expires: April 1, 2009.

RUS PROJECT DESIGNATION:

KENTUCKY 64-E44 JESSAMINE

SUPPLEMENTAL MORTGAGE

made by and among

BLUE GRASS ENERGY COOPERATIVE CORPORATION  
1201 Lexington Road  
Nicholasville, Kentucky 40356,

Mortgagor, and

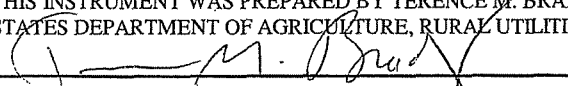
UNITED STATES OF AMERICA  
Rural Utilities Service  
Washington, D.C. 20250-1500,

Mortgagee, and

NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION  
2201 Cooperative Way  
Herndon, Virginia 20171-3025,

Mortgagee

Dated as of October 1, 2007

THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.  
THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.  
THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY, FIXTURES, AFTER-ACQUIRED PROPERTY, PROCEEDS, FUTURE ADVANCES AND FUTURE OBLIGATIONS.  
NOTICE - THIS MORTGAGE SECURES CREDIT IN THE AMOUNT OF UP TO \$200,000,000.00.  
INDEBTEDNESS SECURED HEREUNDER, INCLUDING FUTURE INDEBTEDNESS, TOGETHER WITH INTEREST, ARE SENIOR TO INDEBTEDNESS TO OTHER CREDITORS UNDER MORTGAGES AND LIENS FILED OR RECORDED SUBSEQUENT HERETO.  
THIS INSTRUMENT WAS PREPARED BY TERENCE M. BRADY, ASSISTANT GENERAL COUNSEL, AS ATTORNEY FOR UNITED STATES DEPARTMENT OF AGRICULTURE, RURAL UTILITIES SERVICE, WASHINGTON, D.C. 20250-1500.  
  
MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER IS 0526514.

No. 1

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EXHIBIT A

SUPPLEMENTAL MORTGAGE, dated as of October 1, 2007 (hereinafter sometimes called this "Supplemental Mortgage"), is made by and among BLUE GRASS ENERGY COOPERATIVE CORPORATION (hereinafter called the "Mortgagor"), a corporation existing under the laws of the Commonwealth of Kentucky, and the UNITED STATES OF AMERICA acting by and through the Administrator of the Rural Utilities Service (hereinafter called the "Government") and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (hereinafter called "CFC"), a corporation existing under the laws of the District of Columbia, and is intended to confer rights and benefits on both the Government and CFC, in accordance with this Supplemental Mortgage and the Original Mortgage (hereinafter defined) (the Government and CFC being hereinafter sometimes collectively referred to as the "Mortgagees").

### RECITALS

WHEREAS, the Mortgagor, the Government and CFC are parties to that certain Restated Mortgage and Security Agreement (the "Original Mortgage" as identified in Schedule "A" of this Supplemental Mortgage) originally entered into among the Mortgagor, the Government acting by and through the Administrator of the Rural Utilities Service (hereinafter called "RUS"), and CFC; and

WHEREAS, the Original Mortgage as the same may have been previously supplemented, amended or restated is hereinafter referred to as the "Existing Mortgage"; and

WHEREAS, the Mortgagor deems it necessary to borrow money for its corporate purposes and to issue its promissory notes and other debt obligations therefor, and to mortgage and pledge its property hereinafter described or mentioned to secure the payment of the same, and to enter into this Supplemental Mortgage pursuant to which all secured debt of the Mortgagor hereunder shall be secured on parity, hereunder and under the Existing Mortgage (this Supplemental Mortgage and the Existing Mortgage, hereinafter sometimes collectively referred to as the "Mortgage"); and

WHEREAS, all of the Mortgagor's Outstanding Notes listed in Schedule "A" hereto are secured *pari passu* by the Existing Mortgage for the benefit of all of the Mortgagees under the Existing Mortgage; and

WHEREAS, the Existing Mortgage provides the terms by which additional *pari passu* obligations may be issued thereunder and further provides that the Existing Mortgage may be supplemented from time to time to evidence that such obligations are entitled to the security of the Existing Mortgage and to add additional Mortgagees; and

WHEREAS, by their execution and delivery of this Supplemental Mortgage the parties hereto do hereby secure the Additional Notes listed in Schedule "A" *pari passu* with the Outstanding Notes under the Existing Mortgage; and

WHEREAS, all acts necessary to make this Supplemental Mortgage a valid and binding legal instrument for the security of such notes and obligations under the terms of the Mortgage, have been in all respects duly authorized;

Now, Therefore, This Supplemental Mortgage Witnesseth: That to secure the payment of the principal of (and premium, if any) and interest on all Notes and all Notes issued hereunder according to their tenor and effect, and the performance of all provisions therein and herein contained, and in consideration of the covenants herein contained and the purchase or guarantee of Notes by the guarantors or holders thereof, the Mortgagor has mortgaged, pledged and granted a continuing security interest in, and by these presents does hereby grant, bargain, sell, alienate, remise, release, convey, assign, transfer, hypothecate, pledge, set over and confirm, pledge, and grant a continuing security interest in for the purposes hereinafter expressed, unto the Mortgagees all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein or any other kind or nature, except any Excepted Property, set forth in

the existing mortgage, owned or hereafter acquired by the Mortgagor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following:

- A. all of those fee and leasehold interests in real property set forth in Schedule "B" hereto, subject in each case to those matters set forth in such Schedule; and
- B. all of those fee and leasehold interests in real property set forth in Schedule "B" of the Existing Mortgage or in any restatement, amendment or supplement thereto, subject in each case to those matters set forth in such Schedule; and
- C. all of the kinds, types or items of property, now owned or hereafter acquired, described as Mortgaged Property in the Existing Mortgage or in any restatement, amendment or supplement thereto as Mortgaged Property.

It is further Agreed and Covenanted That the Original Mortgage, as previously restated, amended or supplemented, and this Supplement shall constitute one agreement and the parties hereto shall be bound by all of the terms thereof and, without limiting the foregoing.

- 1. All capitalized terms not defined herein shall have the meaning given in Article I of the Existing Mortgage.
- 2. This Supplemental Mortgage is one of the Supplemental Mortgages contemplated by Article II of the Original Mortgage.
- 3. The Maximum Debt Limit for the Mortgage shall be as set forth in Schedule "A" hereto.



IN WITNESS WHEREOF, BLUE GRASS ENERGY COOPERATIVE CORPORATION, as Mortgagor, has caused this Supplemental Mortgage to be signed in its name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, UNITED STATES OF AMERICA, as Mortgagee and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, as Mortgagee, have each caused this Supplemental Mortgage to be signed in their respective names by duly authorized persons, all as of this day and year first above written.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

by \_\_\_\_\_, Board Chairman

(Seal)

Attest:

Secretary

Executed by the Mortgagor  
in the presence of:

\_\_\_\_\_

\_\_\_\_\_

Witnesses

UNITED STATES OF AMERICA

by *Centis M. Anderson*

**Acting**

Administrator  
of the  
Rural Utilities Service

Executed by United States of America,  
Mortgagee, in the presence of:

*Sara Wetklow*

Sara Wetklow

*D.P.J.*

Douglas P. Jenkins

Witnesses

COMMONWEALTH OF KENTUCKY )  
 ) SS  
COUNTY OF )

I, \_\_\_\_\_, a Notary Public in and for the County and Commonwealth aforesaid, do hereby certify that personally known to me to be the Chairman of Blue Grass Energy Cooperative Corporation, a corporation of the Commonwealth of Kentucky, and to me known to be the identical person whose name is as Chairman of said corporation, subscribed to the foregoing instrument, appeared before me this day in person and produced the foregoing instrument to me in the County aforesaid and acknowledged that as such Chairman he signed the foregoing instrument pursuant to authority given by the board of directors of said corporation as his free and voluntary act and deed and as the free and voluntary act and deed of said corporation for the uses and purposes therein set forth and that the seal affixed to the foregoing instrument is the corporate seal of said corporation.

Given under my hand this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Notary Public  
in and for \_\_\_\_\_ County, Kentucky

(Notarial Seal)

My Commission expires:

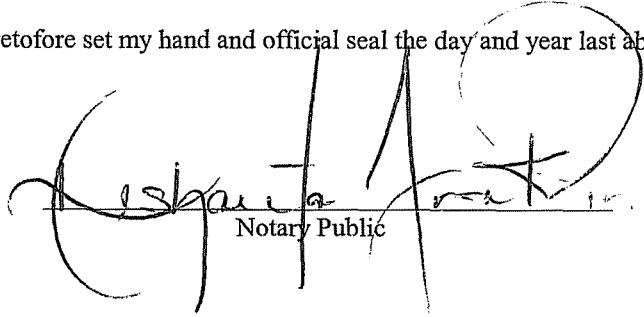
DISTRICT OF COLUMBIA

)

SS

On this 7 day of December, 2007, personally appeared before me  
 the Rural Utilities Service, an agency of the United States of America, and acknowledged to me that, acting under a  
 delegation of authority duly given and evidenced by law and presently in effect, he executed said instrument as the  
 act and deed of the United States of America for the uses and purposes therein mentioned.

IN TESTIMONY WHEREOF I have heretofore set my hand and official seal the day and year last above  
 written.



Notary Public

(Notarial Seal)

**DeShaunta L. Franklin**  
 Notary Public, District of Columbia  
 My Commission Expires 9-30-2010

My commission expires: \_\_\_\_\_

NATIONAL RURAL UTILITIES COOPERATIVE  
FINANCE CORPORATION

by Natalie Adlung **NATALIE J ADLUNG**

Assistant Secretary-Treasurer

(SEAL)

Attest: Elaine MacDonald **ELAINE M MACDONALD**

Assistant Secretary-Treasurer

Executed by the above-named, Mortgagee, in the  
presence of:

Brian W Dougherty **BRIAN W DOUGHERTY**  
Bryan Russell **BRYAN RUSSELL**  
Witnesses

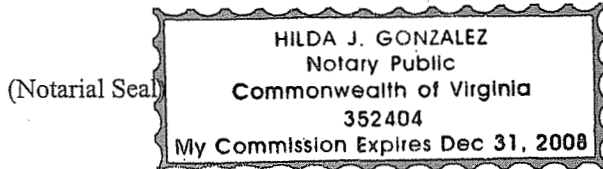
COMMONWEALTH OF VIRGINIA

COUNTY OF FAIRFAX

On this 20th day of December, 2007, before me appeared  
NATALIE J ADLUNG, to me personally known, who, being by me  
duly sworn, did say that he is the ASSISTANT SECRETARY-TREASURER of the National Rural Utilities  
Cooperative Finance Corporation, and that the seal affixed to the foregoing instrument is the corporate seal of said  
corporation and that said instrument was signed and sealed in behalf of said corporation by authority of its board of  
directors and said ASSISTANT SECRETARY-TREASURER acknowledged said instrument to be the free act and  
deed of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Hilda J. Gonzalez  
Notary Public



My commission expires: \_\_\_\_\_

## Supplemental Mortgage Schedule A - Part One

### Maximum Debt Limit and Other Information

1. The Maximum Debt Limit is \$200,000,000.00.
2. The Original Mortgage as referred to in the first WHEREAS clause above is more particularly described as follows:

<u>Instrument Title</u>	<u>Instrument Date</u>
Restated Mortgage and Security Agreement	September 1, 2004

3. The Outstanding Notes referred to in the fourth WHEREAS clause above that are Government Notes are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> <sup>1</sup>
Y2	\$237,000.00	21 Dec 1972	21 Dec 2007	2.00
AD60	\$1,481,000.00	5 Jan 1995	5 Jan 2030	V
AH60	\$2,933,000.00	2 Aug 1995	2 Aug 2030	V
A40	\$9,802,000.00	1 Jun 1998	1 Jun 2033	V
AS8 <sup>2</sup>	\$9,209,000.00	1 Feb 1999	31 Dec 2033	V
B8 <sup>3</sup>	\$25,888,000.00	1 Jun 2000	31 Dec 2034	V
C40	\$29,281,000.00	1 Sep 2004	1 Sep 2039	V
D8 <sup>4</sup>	\$3,087,000.00	1 Apr 2005	31 Dec 2039	V

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<sup>1</sup>V=variable interest rate calculated by RUS pursuant to title 7 of the Code of Federal Regulations or by the Secretary of Treasury. CFC=an interest rate which may be fixed or variable from time to time as provided in the CFC Loan Agreement pertaining to a loan which has been made by CFC and guaranteed by RUS. CoBank=an interest rate which may be fixed or variable from time to time as provided in the CoBank Loan Agreement pertaining to a loan which has been made by CoBank and guaranteed by RUS.

<sup>2</sup>In addition to this note which the Mortgagor has issued to FFB, the Mortgagor has also issued a corresponding promissory note to RUS designated as the certain "Reimbursement Note" bearing even date therewith. Such Reimbursement Note is payable to the Government on demand and evidences the Mortgagor's obligation immediately to repay RUS, any payment which RUS may make pursuant to the RUS guarantee of such FFB note, together with interest, expenses and penalties (all as described in such Reimbursement Note). Such Reimbursement Note is an "Additional Note issued to the Government" for purposes of this Part One of Schedule A of this Supplemental Mortgage and is entitled to all of the benefits and security of the Mortgage.

<sup>3</sup>See footnote 2 in this Schedule A.

<sup>4</sup>See footnote 2 in this Schedule A.

4. The Additional Notes described in the sixth WHEREAS clause above are more particularly described as follows:

<u>Loan Designation</u>	<u>Face Amount</u>	<u>Date</u>	<u>Final Maturity</u>	<u>% Rate</u> <sup>5</sup>
E44	\$42,824,000.00	1 Oct 2007	1 Oct 2038	V

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<sup>5</sup>See footnote 1 in this Schedule A.

**SCHEDULE A: Part Two**

The outstanding secured obligations of the Mortgagor referred to in the fourth WHEREAS clause above are evidenced by the Original Notes described below:

**ORIGINAL NOTES issued to CFC**

<u>CFC Loan Designation</u>	<u>Face Amount of Note</u>	<u>Note Date</u>	<u>Maturity Date</u>
KY064-C-9002	\$102,000.00	12/21/1972 as substituted 06/01/1998	03/21/2008
KY064-C-9003	\$142,000.00	05/30/1974 as substituted 06/01/1998	05/30/2009
KY064-C-9004	\$142,000.00	04/14/1975 as substituted 06/01/1998	04/14/2010
KY064-C-9005	\$322,000.00	09/27/1976 as substituted 06/01/1998	09/27/2011
KY064-C-9006	\$757,000.00	06/22/1978 as substituted 06/01/1998	06/22/2013
KY064-C-9007	\$819,000.00	09/02/1980 as substituted 06/01/1998	09/02/2015
KY064-C-9008	\$492,000.00	12/06/1982 as substituted 06/01/1998	12/06/2017
KY064-C-9009	\$947,000.00	11/26/1984 as substituted 06/01/1998	11/26/2019
KY064-C-9010	\$1,740,000.00	04/06/1989 as substituted 06/01/1998	04/06/2024
KY064-C-9011	\$1,257,000.00	08/02/1995 as substituted 06/01/1998	08/02/2030
KY064-C-9013	\$74,000.00	12/04/1973 as substituted 06/01/1998	12/04/2008
KY064-C-9014	\$190,000.00	12/03/1974 as substituted 06/01/1998	12/03/2009
KY064-C-9015	\$312,000.00	04/23/1976 as substituted 06/01/1998	04/23/2011
KY064-C-9016	\$534,000.00	06/06/1978 as substituted 06/01/1998	06/06/2013

KY064-C-9017	\$499,000.00	04/24/1980 as substituted 06/01/1998	04/24/2015
KY064-C-9018	\$303,093.00	12/04/1984 as substituted 06/01/1998	12/04/2019
KY064-C-9019	\$275,258.00	01/06/1987 as substituted 06/01/1998	01/06/2022
KY064-C-9020	\$618,557.00	05/07/1991 as substituted 06/01/1998	05/07/2026
KY064-C-9021	\$635,000.00	01/05/1995 as substituted 06/01/1998	01/05/2030
KY064-C-9025	\$112,000.00	10/20/1973	10/20/2008
KY064-C-9026	\$147,000.00	02/22/1974	02/22/2009
KY064-C-9027	\$113,000.00	03/04/1975	03/04/2010
KY064-C-9028	\$356,000.00	01/06/1976	01/06/2011
KY064-C-9029	\$405,000.00	08/05/1977	08/05/2012
KY064-C-9030	\$456,000.00	08/18/1979	08/18/2014
KY064-C-9031	\$456,000.00	04/18/1981	04/18/2016
KY064-C-9032	\$266,000.00	07/25/1983	07/25/2018
KY064-C-9033	\$371,134.00	08/16/1985	08/16/2020
KY064-C-9034	\$351,546.00	02/19/1988	02/19/2023
KY064-C-9035	\$608,247.00	10/20/1989	10/20/2024
KY064-C-9036	\$938,144.00	12/16/1993	12/16/2028
KY064-A-9037	\$28,968,446.00	08/07/2003	08/07/2023



**Supplemental Mortgage Schedule B**

**Property Schedule**

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# UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER (optional)

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

National Rural Utilities Cooperative Finance Corporation  
2201 Cooperative Way  
Herndon, VA 20171-3025  
Attn: Legal Administrative Assistant

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME  
**Blue Grass Energy Cooperative Corporation**

OR

1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY  
**1201 Lexington Road Nicholasville KY 40356 USA**

1d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 1e. TYPE OF ORGANIZATION 1f. JURISDICTION OF ORGANIZATION 1g. ORGANIZATIONAL ID #, if any  
**Corporation Kentucky 0526514**  NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR

2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 2e. TYPE OF ORGANIZATION 2f. JURISDICTION OF ORGANIZATION 2g. ORGANIZATIONAL ID #, if any  NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME  
**United States of America, Rural Utilities Service, USDA**

OR

3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY  
**1400 Independence Avenue, S.W. Washington DC 20250-1500 USA**

4. This FINANCING STATEMENT covers the following collateral:  
**Refer to Attachments "A" and "B" attached hereto and incorporated herein.**

5. ALTERNATIVE DESIGNATION (if applicable):  LESSEE/LESSOR  CONSIGNEE/CONSIGNOR  BAILEE/BAILOR  SELLER/BUYER  AG. LIEN  NON-UCC FILING

6.  This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS. Attach Addendum (if applicable) 7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) (optional)  All Debtors  Debtor 1  Debtor 2 [ADDITIONAL FEE]

8. OPTIONAL FILER REFERENCE DATA  
**Kentucky 64-E44 Jessamine**

EXHIBIT A

## Instructions for National UCC Financing Statement (Form UCC1)

Please type or laser-print this form. Be sure it is completely legible. Read all Instructions, especially Instruction 1; correct Debtor name is crucial. Follow Instructions completely.

Fill in form very carefully; mistakes may have important legal consequences. If you have questions, consult your attorney. Filing office cannot give legal advice. Do not insert anything in the open space in the upper portion of this form; it is reserved for filing office use.

When properly completed, send Filing Office Copy, with required fee, to filing office. If you want an acknowledgment, complete item B and, if filing in a filing office that returns an acknowledgment copy furnished by filer, you may also send Acknowledgment Copy; otherwise detach. If you want to make a search request, complete item 7 (after reading Instruction 7 below) and send Search Report Copy, otherwise detach. Always detach Debtor and Secured Party Copies.

If you need to use attachments, use 8-1/2 X 11 inch sheets and put at the top of each sheet the name of the first Debtor, formatted exactly as it appears in item 1 of this form; you are encouraged to use Addendum (Form UCC1Ad).

A. To assist filing offices that might wish to communicate with filer, filer may provide information in item A. This item is optional.

B. Complete item B if you want an acknowledgment sent to you. If filing in a filing office that returns an acknowledgment copy furnished by filer, present simultaneously with this form a carbon or other copy of this form for use as an acknowledgment copy.

1. **Debtor name:** Enter only one Debtor name in item 1, an organization's name (1a) or an individual's name (1b). Enter Debtor's exact full legal name. Don't abbreviate.
  - 1a. **Organization Debtor.** "Organization" means an entity having a legal identity separate from its owner. A partnership is an organization; a sole proprietorship is not an organization, even if it does business under a trade name. If Debtor is a partnership, enter exact full legal name of partnership; you need not enter names of partners as additional Debtors. If Debtor is a registered organization (e.g., corporation, limited partnership, limited liability company), it is advisable to examine Debtor's current filed charter documents to determine Debtor's correct name, organization type, and jurisdiction of organization.
  - 1b. **Individual Debtor.** "Individual" means a natural person; this includes a sole proprietorship, whether or not operating under a trade name. Don't use prefixes (Mr., Mrs., Ms.). Use suffix box only for titles of lineage (Jr., Sr., III) and not for other suffixes or titles (e.g., M.D.). Use married woman's personal name (Mary Smith, not Mrs. John Smith). Enter individual Debtor's family name (surname) in Last Name box, first given name in First Name box, and all additional given names in Middle Name box.  
For both organization and individual Debtors: Don't use Debtor's trade name, DBA, AKA, FKA, Division name, etc. in place of or combined with Debtor's legal name; you may add such other names as additional Debtors if you wish (but this is neither required nor recommended).
  - 1c. An address is always required for the Debtor named in 1a or 1b.
  - 1d. Debtor's taxpayer identification number (tax ID #) — social security number or employer identification number — may be required in some states.
  - 1e, f, g. "Additional information re organization Debtor" is always required. Type of organization and jurisdiction of organization as well as Debtor's exact legal name can be determined from Debtor's current filed charter document. Organizational ID #, if any, is assigned by the agency where the charter document was filed; this is different from tax ID #; this should be entered preceded by the 2-character U.S. Postal identification of state of organization if one of the United States (e.g., CA12345, for a California corporation whose organizational ID # is 12345); if agency does not assign organizational ID #, check box in item 1g indicating "none."
- Note:* If Debtor is a trust or a trustee acting with respect to property held in trust, enter Debtor's name in item 1 and attach Addendum (Form UCC1Ad) and check appropriate box in item 17. If Debtor is a decedent's estate, enter name of deceased individual in item 1b and attach Addendum (Form UCC1Ad) and check appropriate box in item 17. If Debtor is a transmitting utility or this Financing Statement is filed in connection with a Manufactured-Home Transaction or a Public-Finance Transaction as defined in applicable Commercial Code, attach Addendum (Form UCC1Ad) and check appropriate box in item 18.
2. If an additional Debtor is included, complete item 2, determined and formatted per Instruction 1. To include further additional Debtors, or one or more additional Secured Parties, attach either Addendum (Form UCC1Ad) or other additional page(s), using correct name format. Follow Instruction 1 for determining and formatting additional names.
  3. Enter information for Secured Party or Total Assignee, determined and formatted per Instruction 1. If there is more than one Secured Party, see Instruction 2. If there has been a total assignment of the Secured Party's interest prior to filing this form, you may either (1) enter Assignor S/P's name and address in item 3 and file an Amendment (Form UCC3) [see item 5 of that form]; or (2) enter Total Assignee's name and address in item 3 and, if you wish, also attaching Addendum (Form UCC1Ad) giving Assignor S/P's name and address in item 12.
  4. Use item 4 to indicate the collateral covered by this Financing Statement. If space in item 4 is insufficient, put the entire collateral description or continuation of the collateral description on either Addendum (Form UCC1Ad) or other attached additional page(s).
  5. If filer desires (at filer's option) to use titles of lessee and lessor, or consignee and consignor, or seller and buyer (in the case of accounts or chattel paper), or bailee and bailor instead of Debtor and Secured Party, check the appropriate box in item 5. If this is an agricultural lien (as defined in applicable Commercial Code) filing or is otherwise not a UCC security interest filing (e.g., a tax lien, judgment lien, etc.), check the appropriate box in item 5, complete items 1-7 as applicable and attach any other items required under other law.
  6. If this Financing Statement is filed as a fixture filing or if the collateral consists of timber to be cut or as-extracted collateral, complete items 1-5, check the box in item 6, and complete the required information (items 13, 14 and/or 15) on Addendum (Form UCC1Ad).
  7. This item is optional. Check appropriate box in item 7 to request Search Report(s) on all or some of the Debtors named in this Financing Statement. The Report will list all Financing Statements on file against the designated Debtor on the date of the Report, including this Financing Statement. There is an additional fee for each Report. If you have checked a box in item 7, file Search Report Copy together with Filing Officer Copy (and Acknowledgment Copy). Note: Not all states do searches and not all states will honor a search request made via this form; some states require a separate request form.
  8. This item is optional and is for filer's use only. For filer's convenience of reference, filer may enter in item 8 any identifying information (e.g., Secured Party's loan number, law firm file number, Debtor's name or other identification, state in which form is being filed, etc.) that filer may find useful.

# UCC FINANCING STATEMENT ADDENDUM

FOLLOW INSTRUCTIONS (front and back) CAREFULLY.

9. NAME OF FIRST DEBTOR (1a or 1b) ON RELATED FINANCING STATEMENT

9a. ORGANIZATION'S NAME  
**Blue Grass Energy Cooperative Corporation**

OR

9b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME, SUFFIX

10. MISCELLANEOUS:

**THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY**

11. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one name (11a or 11b) - do not abbreviate or combine names

11a. ORGANIZATION'S NAME

OR

11b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX

11c. MAILING ADDRESS

CITY	STATE	POSTAL CODE	COUNTRY

11d. TAX ID #: SSN OR EIN

ADD'L INFO RE ORGANIZATION DEBTOR

11e. TYPE OF ORGANIZATION

11f. JURISDICTION OF ORGANIZATION

11g. ORGANIZATIONAL ID #, if any

NONE

12.  ADDITIONAL SECURED PARTY'S or  ASSIGNOR S/P'S NAME - insert only one name (12a or 12b)

12a. ORGANIZATION'S NAME  
**National Rural Utilities Cooperative Finance Corporation**

OR

12b. INDIVIDUAL'S LAST NAME	FIRST NAME	MIDDLE NAME	SUFFIX

12c. MAILING ADDRESS  
**2201 Cooperative Way**

CITY <b>Herndon</b>	STATE <b>VA</b>	POSTAL CODE <b>20171-3025</b>	COUNTRY <b>USA</b>
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13. This FINANCING STATEMENT covers  timber to be cut or  as-extracted collateral, or is filed as a  fixture filing.

14. Description of real estate:  
**Refer to Attachment "B" attached hereto and incorporated by reference herein.**

15. Name and address of a RECORD OWNER of above-described real estate (if Debtor does not have a record interest):

16. Additional collateral description:

17. Check only if applicable and check only one box.  
 Debtor is a  Trust or  Trustee acting with respect to property held in trust or  Decedent's Estate

18. Check only if applicable and check only one box.  
 Debtor is a TRANSMITTING UTILITY  
 Filed in connection with a Manufactured-Home Transaction — effective 30 years  
 Filed in connection with a Public-Finance Transaction — effective 30 years

## Instructions for National UCC Financing Statement Addendum (Form UCC1Ad)

9. Insert name of first Debtor shown on Financing Statement to which this Addendum is related, exactly as shown in item 1 of Financing Statement.
10. Miscellaneous: Under certain circumstances, additional information not provided on Financing Statement may be required. Also, some states have non-uniform requirements. Use this space to provide such additional information or to comply with such requirements; otherwise, leave blank.
11. If this Addendum adds an additional Debtor, complete item 11 in accordance with Instruction 1 on Financing Statement. To add more than one additional Debtor, either use an additional Addendum form for each additional Debtor or replicate for each additional Debtor the formatting of Financing Statement item 1 on an 8-1/2 X 11 inch sheet (showing at the top of the sheet the name of the first Debtor shown on the Financing Statement), and in either case give complete information for each additional Debtor in accordance with Instruction 1 on Financing Statement. All additional Debtor information, especially the name, must be presented in proper format exactly identical to the format of item 1 of Financing Statement.
12. If this Addendum adds an additional Secured Party, complete item 12 in accordance with Instruction 3 on Financing Statement. In the case of a total assignment of the Secured Party's interest before the filing of this Financing Statement, if filer has given the name and address of the Total Assignee in item 3 of the Financing Statement, filer may give the Assignor S/P's name and address in item 12.
- 13-15. If collateral is timber to be cut or as-extracted collateral, or if this Financing Statement is filed as a fixture filing, check appropriate box in item 13; provide description of real estate in item 14; and, if Debtor is not a record owner of the described real estate, also provide, in item 15, the name and address of a record owner. Also provide collateral description in item 4 of Financing Statement. Also check box 6 on Financing Statement. Description of real estate must be sufficient under the applicable law of the jurisdiction where the real estate is located.
16. Use this space to provide continued description of collateral, if you cannot complete description in item 4 of Financing Statement.
17. If Debtor is a trust or a trustee acting with respect to property held in trust or is a decedent's estate, check the appropriate box.
18. If Debtor is a transmitting utility or if the Financing Statement relates to a Manufactured-Home Transaction or a Public-Finance Transaction as defined in the applicable Commercial Code, check the appropriate box.

## Attachment A

**Debtor:** Blue Grass Energy Cooperative Corporation

All property, assets, rights, privileges and franchises of the Debtor of every kind and description, real, personal or mixed, tangible and intangible, of the kind or nature specifically mentioned herein OR ANY OTHER KIND OR NATURE, except any Excepted Property, now owned or hereafter acquired or arising by the Debtor (by purchase, consolidation, merger, donation, construction, erection or in any other way) wherever located, including (without limitation) all and singular the following (hereinafter sometimes called the "Collateral"):

### FIRST

- A. all of those fee and leasehold interests in real property set forth in Attachment "B" hereto, subject in each case to those matters set forth in such Attachment;
- B. all of the Debtor's interest in fixtures, easements, permits, licenses and rights-of-way comprising real property, and all other interests in real property, comprising any portion of the utility system located in the Counties listed in Attachment "B" hereto;
- C. all right, title and interest of the Debtor in and to those contracts of the Debtor
  - (i) relating to the ownership, operation or maintenance of any generation, transmission or distribution facility owned, whether solely or jointly, by the Debtor,
  - (ii) for the purchase of electric power and energy by the Debtor and having an original term in excess of 3 years,
  - (iii) for the sale of electric power and energy by the Debtor and having an original term in excess of 3 years, and
  - (iv) for the transmission of electric power and energy by or on behalf of the Debtor and having an original term in excess of 3 years, including in respect of any of the foregoing, any amendments, supplements and replacements thereto;
- D. all the property, rights, privileges, allowances and franchises particularly described in the annexed Attachment "B" are hereby made a part of, and deemed to be described in, this clause as fully as if set forth in this clause at length; and

ALSO ALL OTHER PROPERTY, real estate, lands, easements, servitudes, licenses, permits, allowances, consents, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same; all power sites, storage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, waterways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water, all rights of way and roads; all plants for the generation of electric and other forms of energy (whether now known or hereafter developed) by steam, water, sunlight, chemical processes and/or (without limitation) all other sources of power (whether now known or hereafter developed), all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, all telephone, radio, television and other communications, image and data transmission systems, air conditioning systems and equipment incidental thereto, water wheels, waterworks, water systems, steam and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereto, all machinery, engines, boilers, dynamos, turbines, electric, gas and other machines, prime movers, regulators, meters, transformers, generators (including, but not limited to, engine-driven generators and turbo generator

**Debtor:** Blue Grass Energy Cooperative Corporation

units), motors, electrical, gas and mechanical appliances, conduits, cables, water, steam, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, towers, overhead conductors and devices, underground conduits, underground conductors and devices, wires, cables, tools, implements, apparatus, storage battery equipment, and all other equipment, fixtures and personalty, all municipal and other franchises, consents, certificates or permits; all emissions allowances, all lines for the transmission and distribution of electric current and other forms of energy, gas, steam, water or communications, images and data for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith, and (except as hereinbefore or hereinafter expressly excepted) all the right, title and interest of the Debtor in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or employed in connection with any property hereinbefore described, but in all circumstances excluding Excepted Property;

## **SECOND**

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under all personal property and fixtures of every kind and nature including without limitation all goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts, chattel paper, electronic chattel paper, deposit accounts (including, but not limited to, money held in a trust account pursuant hereto or to a loan agreement), letter-of-credit rights, investment property (including certificated and uncertificated securities, security entitlements and securities accounts), software, general intangibles (including, but not limited to, payment intangibles), supporting obligations, any other contract rights or rights to the payment of money, insurance claims, and proceeds (as such terms are presently or hereinafter defined in the applicable UCC; provided, however that the term "instrument" shall be such term as defined in Article 9 of the applicable UCC rather than Article 3);

## **THIRD**

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under any and all agreements, leases or contracts heretofore or hereafter executed by and between the Debtor and any person, firm or corporation relating to the Collateral (including contracts for the lease, occupancy or sale of the Collateral, or any portion thereof);

## **FOURTH**

With the exception of Excepted Property, all right, title and interest of the Debtor in, to and under any and all books, records and correspondence relating to the Collateral, including, but not limited to all records, ledgers, leases and computer and automatic machinery software and programs, including without limitation, programs, databases, disc or tape files and automatic machinery print outs, runs and other computer prepared information indicating, summarizing, evidencing or otherwise necessary or helpful in the collection of or realization on the Collateral;

## **FIFTH**

All other property, real, personal or mixed, of whatever kind and description and wheresoever situated, including without limitation goods, accounts, money held in a trust account pursuant hereto or to a loan agreement, and general intangibles now owned or which be hereafter acquired by the Debtor, but excluding Excepted Property, now owned or which may be hereafter acquired by the Debtor, it being the intention hereof that all property, rights, privileges, allowances and franchises now owned by the Debtor or acquired by the Debtor after the date hereof (other than Excepted Property) shall be as fully embraced within and subjected to the lien hereof as if such property were specifically described herein;

**Debtor:** Blue Grass Energy Cooperative Corporation

**SIXTH**

Also any Excepted Property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien hereof by the Debtor or by anyone in its behalf; and any Secured Party is hereby authorized to receive the same at any time as additional security hereunder for the benefit of all the Secured Parties. Such subjection to the lien hereof of any Excepted Property as additional security may be made subject to any reservations, limitations or conditions which shall be set forth in a written instrument executed by the Debtor or the person so acting in its behalf or by such Secured Party respecting the use and disposition of such property or the proceeds thereof;

**SEVENTH**

Together with all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and all the tolls, earnings, rents, issues, profits, revenues and other income, products and proceeds of the Collateral, and all other property of any nature appertaining to any of the plants, systems, business or operations of the Debtor, whether or not affixed to the realty, used in the operation of any of the premises or plants or the utility system, or otherwise, which are now owned or acquired by the Debtor, and all the estate, right, title and interest of every nature whatsoever, at law as well as in equity, of the Debtor in and to the same and every part thereof (other than Excepted Property with respect to any of the foregoing).



**Debtor:** Blue Grass Energy Cooperative Corporation

### EXCEPTED PROPERTY

There is, however, expressly excepted and excluded from the Collateral the following described property of the Debtor, now owned or hereafter acquired (herein sometimes referred to as "Excepted Property"):

- A. all shares of stock, securities or other interests of the Debtor in the National Rural Utilities Cooperative Finance Corporation and CoBank, ACB and its predecessors in interest other than any stock, securities or other interests that are specifically described in Subclause D of clause First as being subjected to the lien hereof;
- B. all rolling stock (except mobile substations), automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment which are titled and/or registered in any state of the United States of America and all tools, accessories and supplies used in connection with any of the foregoing;
- C. all vessels, boats, ships, barges and other marine equipment, all airplanes, airplane engines and other flight equipment, and all tools, accessories and supplies used in connection with any of the foregoing;
- D. all office furniture, equipment and supplies that is not data processing, accounting or other computer equipment or software;
- E. all leasehold interests for office purposes;
- F. all leasehold interests of the Debtor under leases for an original term (including any period for which the Debtor shall have a right of renewal) of less than five (5) years;
- G. all timber and crops (both growing and harvested) and all coal, ore, gas, oil and other minerals (both in place or severed);
- H. the last day of the term of each leasehold estate (oral or written) and any agreement therefor, now or hereafter enjoyed by the Debtor and whether falling within a general or specific description of property herein: PROVIDED, HOWEVER, that the Debtor covenants and agrees that it will hold each such last day in trust for the use and benefit of all of the Secured Parties and that it will dispose of each such last day from time to time in accordance with such written order as the Secured Party in its discretion may give;
- I. all permits, licenses, franchises, contracts, agreements, contract rights and other rights not specifically subjected or required to be subjected to the lien hereof by the express provisions of the mortgage and security agreement by and among Debtor and Secured Parties (the "Mortgage"), whether now owned or hereafter acquired by the Debtor, which by their terms or by reason of applicable law would become void or voidable if mortgaged or pledged hereunder by the Debtor, or which cannot be granted, conveyed, mortgaged, transferred or assigned by the Mortgage without the consent of other parties whose consent has been withheld, or without subjecting any Secured Party to a liability not otherwise contemplated by the provisions of the Mortgage, or which otherwise may not be, hereby lawfully and effectively granted, conveyed, mortgaged, transferred and assigned by the Debtor; and
- J. the property, if any, identified in Attachment "C" hereto.

PROVIDED, HOWEVER, that (i) if, upon the occurrence of an Event of Default (as defined in the Mortgage), any Secured Party, or any receiver appointed pursuant to statutory provision or order of court, shall have entered into possession of all or substantially all of the Collateral, all the Excepted

**Debtor:** Blue Grass Energy Cooperative Corporation

Property described or referred to in the foregoing Subdivisions A through H, inclusive, then owned or thereafter acquired by the Debtor shall immediately, and, in the case of any Excepted Property described or referred to in Subdivisions I through J, inclusive, upon demand of any Secured Party or such receiver, become subject to the lien hereof to the extent permitted by law, and any Secured Party or such receiver may, to the extent permitted by law, at the same time likewise take possession thereof, and (ii) whenever all Events of Default shall have been cured and the possession of all or substantially all of the Collateral shall have been restored to the Debtor, such Excepted Property shall again be excepted and excluded from the lien hereof to the extent and otherwise as hereinabove set forth.

## ATTACHMENT B

### Debtor: Blue Grass Energy Cooperative Corporation

1. A certain tract of land described in a certain deed dated July 1, 1957, by Margaret Mae McDowell and Allin McDowell to Blue Grass Rural Electric Cooperative Corporation and recorded in Deed Book 66, page 244 in the Office of the Jessamine County Clerk, in the State of Kentucky;
2. A certain tract of land described in a certain deed dated October 1977 by John A. Kaylor to Blue Grass Rural Electric Cooperative Corporation, and recorded in Plat Book 5, page 373 in the Office of the Madison County Clerk, in the state of Kentucky. EXCLUDED a certain tract of land previously conveyed by Harold P. Prewitt and wife to Danny Order, by deed dated June 29, 1983 and recorded in Deed Book 354, page 205 in the Office of the Madison County Clerk, in the State of Kentucky Being the same property conveyed to Blue Grass Rural Electric Cooperative Corporation by deed of Madison Tractor Inc. dated February 10, 1988 and recorded in Deed Book 390, page 57 in the Office of the Madison County Clerk, in the State of Kentucky;
3. A certain tract of land described in a certain deed dated October 14, 1986 by Evelyn McDowell Irwin and John V. Irwin to Blue Grass Rural Electric Cooperative Corporation, and recorded in Deed Book 218, page 135 in the Office of the Jessamine County Clerk, in the State of Kentucky;
4. A certain tract of land described in a certain deed dated March 7, 1997 by Jouett A. McDowell and others to Blue Grass Rural Electric Cooperative Corporation, and recorded in Deed Book 363, page 542, in the Office of the Jessamine County Clerk, in the State of Kentucky;
5. A certain tract of land described in a the plat of the "John Kaylor property", dated October 1977 and recorded in Plat Book 5, Page 373 in the Office of the Madison County Clerk, in the State of Kentucky;
6. A certain tract of land described in Minor Plat "Harold P. Prewitt Property, Hurley Shortline St., Madison County, Kentucky", dated May 1983, to Blue Grass Rural Electric Cooperative and recorded in Plat Book 7, Page 22 in the Office of the Madison County Clerk, in the State of Kentucky. RESERVING to the party of the first part, their heirs and assigns, a fifty foot right-of-way easement for the purpose of ingress and egress as shown in Plat Book 7, Page 22. Tracts 6 and 7 described in a certain deed dated March 28, 1997 by Russell E. Major and Lucy R. Major, and recorded in Deed Book 475, page 389, in the Office of the Madison County Clerk, in the state of Kentucky;
7. A certain tract of land described in certain Deed dated August 11, 1966 by J. B. Sweeney and Cora M. Sweeney, to fox Creek Rural Electric Cooperative Corporation, and recorded in Deed Book 64, Page 115, in the Office of the Anderson County Clerk, in the State of Kentucky;
8. A certain tract of land described in a certain Deed dated June 6, 1961 by J. B. Sweeney and Cora M. Sweeney, to Fox Creek Rural Electric Cooperative Corporation, and recorded in Deed Book 45, Page 197 in the Office of the Anderson County Clerk, in the State of Kentucky;

**Debtor: Blue Grass Energy Cooperative Corporation**

9. A certain tract of land described in a certain Deed dated June 14, 1974 by J. B. Sweeney, to Fox Creek Rural Electric Cooperative Corporation, and recorded in Deed Book 81, Page 14, in the Office of the Anderson County Clerk, in the State of Kentucky. RESERVED in favor of J. B. Sweeney, his heirs and assigns, an easement passway 12 (twelve) feet in width across the southern portion of said tract of land and EXCEPTED, from this described property two tracts conveyed by Fox Creek Rural Electric Cooperative Corporation to William T. May and Anna K. May by Deed dated July 3, 1992 and recorded in Deed Book 147, Page 597 in the Office of the County Clerk of Anderson County, in the State of Kentucky;
10. A certain tract or parcel of land, together with all improvements thereon, described in a certain deed dated February 25, 1941, executed and delivered by J. Roy Peak, et al., as grantors, to the Mortgagor Corporation, as grantee, and recorded on the 22<sup>nd</sup> day of May, 1941, in the Office of the Clerk of Harrison County, Kentucky, in Deed Book 103, Page 161; and
11. A certain tract or parcel of land, together with all improvements thereon, in a certain deed dated November 4, 1957, executed and delivered by Joe W. Miner, as grantor, to the Mortgagor Corporation as grantee, and recorded on the 7<sup>th</sup> day of November, 1957, in the Office of the Clerk of Harrison County, Kentucky, in Book 120, Page 86, and
12. A certain tract or parcel of land, together with all improvements thereon, described in a certain deed, dated August 6, 1959, executed and delivered by Roland S. and Cora M. Huff, as grantors, to the Mortgagor Corporation, as grantee, and recorded on the 6<sup>th</sup> day of August, 1959, in the Office of the Clerk of Bracken, County, Kentucky, in Deed Book 82, Page 237; and
13. A certain tract or parcel of land, together with all improvements thereon, described in a certain deed, dated March 1, 1966, executed and delivered by Max P. Chase, as grantee, and recorded on the 2<sup>nd</sup> day of March 1966, in the Office of the Clerk of Harrison County, Kentucky, in the Deed Book 128, Page 207 and
14. A certain tract or parcel of land, together with all improvements thereon, described in a certain deed of dated July 17, 1973, executed and delivered by Kenneth Clifford, et al., as grantors to the Mortgagor Corporation, as grantee, and recorded on July 17, 1973, in the Office of the Clerk of Harrison County, Kentucky, in Deed Book 140, Page 270.
15. A certain tract or parcel of land, together with all improvements thereon, described in a certain deed, dated August 24, 2004, executed and delivered by Cynthiana-Harrison County Economic Development Authority, Inc., as grantor, to Blue Grass Energy, as grantee, and recorded on the 24<sup>th</sup> day of August, 2004, in the Office of the Clerk of Harrison County, Kentucky, in Deed Book 272, Page 459.

RUS Electric Treasury Rate Note  
2 Year Principal Deferral

PROJECT DESIGNATION:

KENTUCKY 64-B44 JESSAMINE

MORTGAGE NOTE

made by

BLUE GRASS ENERGY COOPERATIVE CORPORATION

to

UNITED STATES OF AMERICA

EXHIBIT B

## MORTGAGE NOTE

Nicholasville, Kentucky  
October 1, 2007

1. Amount. BLUE GRASS ENERGY COOPERATIVE CORPORATION (hereinafter called the "Borrower"), a corporation organized and existing under the laws of the Commonwealth of Kentucky, for value received, promises to pay to the order of the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Utilities Service (hereinafter called the "Administrator"), at the United States Treasury, Washington, D.C., at the times and in the manner hereinafter provided, such sums as may be advanced from time to time, not to exceed Forty-two Million Eight Hundred Twenty-four Thousand Dollars and No Cents (\$42,824,000.00), with interest payable from the date of each advance ("Advance") on the unpaid principal balance remaining unpaid from time to time as hereinafter provided.
  
2. Interest Rate. The Borrower agrees to pay interest on the unpaid principal balance hereunder for each Advance on the dates and at a rate or rates per annum (the "Treasury Interest Rate") determined by the Government for that Advance in accordance with 7 CFR § 1710.51(a)(1), and as may be more particularly described in that certain Loan Contract as hereinafter defined.
  
3. Fund Advance Period. Funds will be advanced under this Note pursuant to a loan contract dated as of October 1, 2007, between the Borrower and the Government as it may be amended from time to time (the "Loan Contract"). The fund advance period for this Note begins on the date hereof and terminates four (4) years from the date of this note (the "Termination Date"). All funds not advanced prior to the Termination Date shall be automatically rescinded unless the Administrator extends the fund advance period in accordance with 7 CFR § 1714.56.
  
4. Payment on Advances made within two (2) years. Interest on principal advanced during the first two (2) years from the date hereof pursuant to the Loan Contract and remaining unpaid shall be payable monthly on the last day of each month (the "Monthly Payment Date") beginning on the Monthly Payment Date following the month of each Advance of principal for a period ending on a date two (2) years after the date hereof. The first interest payment on an Advance made during the first two years from the date hereof shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Thereafter, to and including a date thirty-one (31) years after the date hereof (the "Final Maturity Date"), the Borrower shall pay all accrued interest on each Advance on every Monthly Payment Date and shall repay the principal on each such Advance according to the amortization method specified in Paragraph 6 of this Note.
  
5. Payment on Advances made after two (2) years. For all Advances made two (2) years or more after the date hereof, the Borrower shall pay all accrued interest on the unpaid principal balance of the principal amount advanced pursuant to the Loan Contract two (2) or more years after the date hereof and remaining unpaid and shall repay the principal on each such Advance beginning on the Monthly Payment Date following the month of such Advance in accordance with the amortization method specified in Paragraph 6 of this Note. The first payment on an Advance made two (2) years or more after the date of this Note shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Payments under this Paragraph 5 shall be in addition to the payments on the Advances made pursuant to Paragraph 4. Regardless of the amortization method selected or anything in this Note to the contrary, all amounts outstanding under this Note remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.
  
6. Amortization Method. The Borrower has elected the "**level debt service**" amortization method for all of the

Advances under this Note --- during each Interest Rate Term (as defined in 7 CFR § 1710.2) for such Advance, the amount of each monthly payment of principal and interest shall (i) substantially equal the amount of every other monthly payment on such Advance during such Interest Rate Term, and (ii) be in an amount that will pay all principal and interest of such Advance no later than the Final Maturity Date.

7. No Call Provision. The Borrower has no option allowing it to prepay all, or any portion of, the outstanding balance on any Advance thereof except as provided in paragraph 10 of this Note.

8. No Interest Rate Cap. The interest rate on this Note is **NOT** subject to the seven percent (7%) maximum interest rate limitation presently imposed by said Section 305 and its related implementing regulations.

9. Application of Payments. Each payment made on this Note shall be applied first to the payment of interest on principal and then on account of principal. Any principal hereof advanced pursuant to the Loan Contract remaining unpaid, and interest thereon, shall become due and payable on the Final Maturity Date.

10. Prepayment. All, or a portion of the outstanding balance on any Advance may be prepaid on any Rollover Maturity Date (as defined in 7 CFR § 1710.2) pursuant to 7 CFR § 1714.6(a)(4). Such balance may also be prepaid pursuant to Section 306B of the Rural Electrification Act of 1936.

11. Security. This Note has been executed and delivered pursuant to and is secured by a certain mortgage and security agreement, dated as of September 1, 2004, made by and among the Borrower, the Government and National Rural Utilities Cooperative Finance Corporation, as the same may have been amended or supplemented by any supplemental mortgage and security agreement or supplemental mortgages and security agreements (said mortgage and security agreement and any such supplemental mortgage(s) and security agreement(s) being hereinafter collectively called the "Mortgage"), and is one of several notes (the "Notes") permitted to be executed and delivered by the Borrower pursuant to the Mortgage. The Mortgage provides that all Notes shall be equally and ratably secured thereby and reference is hereby made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security and the rights of the holders of Notes with respect thereto.

12. Default. In case of default by the Borrower, as provided in the Mortgage, all principal advanced pursuant to the Loan Contract and remaining unpaid on this Note and any other Notes at the time outstanding, and all interest thereon, may be declared or may become due and payable in the manner and with the effect provided in the Mortgage.

13. Noteholder. This Note evidences indebtedness created by a loan made by the Government under the NOFA and the Rural Electrification Act of 1936, as amended. If the Government shall at any time assign this Note and insure the payment hereof, the Borrower shall continue to make payments hereunder to the Government as collection agent for the insured holder, and, for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

14. Additional Notes. If the Government, at any time prior to the advance of the entire principal amount hereof on account of this Note, shall make a written endorsement hereon stating the amount advanced on account of the principal hereof, and shall notify the Borrower, in writing, of such endorsement, then the principal amount of this Note shall be deemed to be and shall become reduced to the amount specified in such endorsement, and the Borrower shall then execute and deliver to the Government one or more additional notes, in an amount or amounts

designated by the Government which in the aggregate shall be equal to the then unadvanced portion of the original principal amount of this Note, such additional notes to be dated the date of execution, to be in substantially the same form, and to bear the same interest rate, as this Note. The Borrower, upon the request therefor in writing by the Government, shall execute and deliver to the Government two or more notes, in substitution for this Note, in substantially the same form and bearing the same interest rate and date (except that any such substitute note which will evidence only an unadvanced portion of this Note may, at the discretion of the Government, be dated the date of execution), in an aggregate principal amount which shall be equal to the principal amount of this Note, but in such individual principal amounts as the Government shall request; provided that (i) all payments which shall have been made on account of the principal of and interest on this Note shall be credited on account of such substitute notes and (ii) the Government shall return this Note to the Borrower upon receipt and acceptance of such substitute notes.

15. References to Regulations or Notices. References in this Note to specific Government regulations or notices will apply to corresponding provisions in future versions of such regulations and notices.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

by \_\_\_\_\_, Board Chairman

(Seal)

Attest:

Secretary



RUS Project Designation:  
KENTUCKY 64-E44 JESSAMINE

RUS LOAN CONTRACT

An Agreement Made By And Between  
BLUE GRASS ENERGY COOPERATIVE CORPORATION,  
as Borrower  
and  
UNITED STATES OF AMERICA,  
as Lender

Dated as of October 1, 2007

UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL UTILITIES SERVICE

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

Generated: September 19, 2007

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EXHIBIT C

## RUS LOAN CONTRACT

AGREEMENT, dated as of October 1, 2007, between BLUE GRASS ENERGY COOPERATIVE CORPORATION ("Borrower"), a corporation organized and existing under the laws of the Commonwealth of Kentucky (the "State"), and the UNITED STATES OF AMERICA, acting by and through the Administrator of the Rural Utilities Service ("RUS").

### RECITALS

The Borrower has applied to RUS for financial assistance for the purpose(s) set forth in Schedule 1 hereto.

RUS is willing to extend financial assistance to the Borrower pursuant to the Rural Electrification Act of 1936, as amended, on the terms and conditions stated herein.

THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter contained, and other good and valuable consideration, the parties hereto agree and bind themselves as follows:

### ARTICLE I

#### DEFINITIONS

Capitalized terms that are not defined herein shall have the meanings as set forth in the Mortgage. The terms defined herein include the plural as well as the singular and the singular as well as the plural.

Act shall mean the Rural Electrification Act of 1936, as amended.

Advance or Advances shall mean advances of Loan funds to the Borrower which have been made or approved by RUS pursuant to the terms and conditions of this Agreement.

Agreement shall mean this Loan Contract together with all schedules and exhibits and also any subsequent supplements or amendments.

Business Day shall mean any day that RUS is open for business.

Contemporaneous Loan shall mean any loan which the Borrower has used to satisfy RUS Regulations or loan conditions requiring that supplemental financing be obtained in order to obtain a loan from RUS. Any loan used to refinance or refund a Contemporaneous Loan is also considered to be a Contemporaneous Loan.

Coverage Ratios shall mean, collectively, the following financial ratios: (i) TIER of 1.25; (ii) Operating TIER of 1.1; (iii) DSC of 1.25; and Operating DSC of 1.1.

Debt Service Coverage Ratio ("DSC") shall have the meaning provided in the Mortgage.

Distributions shall mean for the Borrower to, in any calendar year, declare or pay any dividends, or pay or determine to pay any patronage refunds, or retire any patronage capital or make any other Cash Distributions, to its members, stockholders or consumers; provided, however, that for the purposes of this Agreement a "Cash Distribution" shall be deemed to include any general cancellation or abatement of charges for electric energy or services furnished by the Borrower, but not the repayment of a membership fee upon termination of a membership or the rebate of an abatement of wholesale power costs previously incurred pursuant to an order of a state regulatory

authority or a wholesale power cost adjustment clause or similar power pricing agreement between the Borrower and a power supplier.

**Electric System** shall have the meaning as defined in the Mortgage.

**Equity** shall mean the Borrower's total margins and equities computed pursuant to RUS Accounting Requirements but excluding any Regulatory Created Assets.

**Event of Default** shall have the meaning as defined in Section 7.1.

**Final Maturity Date** shall have the meaning as defined in the Note.

**Independent** when used with respect to any specified person or entity means such a person or entity who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Borrower or in any affiliate of the Borrower and (3) is not connected with the Borrower as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

**Interest Expense** shall mean the interest expense of the Borrower computed pursuant to RUS Accounting Requirements.

**Loan** shall mean the loan described in Article III which is being made or guaranteed pursuant to the RUS Commitment in furtherance of the objectives of the Act.

**Loan Documents** shall mean, collectively, this Agreement, the Mortgage and the Note and shall also include any Reimbursement Note.

**Long-Term Debt** shall mean the total of all amounts included in the long-term debt of the Borrower pursuant to RUS Accounting Requirements.

**Monthly Payment Date** shall have the meaning as defined in the Note.

**Mortgage** shall have the meaning as described in Schedule 1 hereto.

**Mortgaged Property** shall have the meaning as defined in the Mortgage.

**Net Utility Plant** shall mean the amount constituting the Total Utility Plant of the Borrower, less depreciation, computed in accordance with RUS Accounting Requirements.

**Note** shall mean a promissory note or notes executed by the Borrower in the form of Exhibit A hereto, and any note executed and delivered to RUS or to the Federal Financing Bank (FFB) to refund, or in substitution for such a note. If the RUS Commitment includes both a commitment by RUS to make a loan and also a commitment by RUS to guarantee a loan made by FFB, then Exhibit A includes both forms. Note shall also mean any promissory note or notes executed by the Borrower and delivered to a third party in connection with a loan that RUS has guaranteed as to payment pursuant to a master loan guaranty agreement.

**Operating DSC or ODSC** shall mean Operating Debt Service Coverage calculated as:

$$\text{ODSC} = \frac{\text{A+B+C}}{\text{D}}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;

- A = Depreciation and Amortization Expense of the Electric System;
- B = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which the Restricted Rentals of the Electric System exceed 2 percent of the Borrower's Equity;
- C = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System; and
- D = Debt service billed which equals the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt of the Electric System during the calendar year, plus 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity.

**Operating TIER or OTIER** shall mean Operating Times Interest Earned Ratio calculated as:

$$\text{OTIER} = \frac{\text{A+B}}{\text{A}}$$

where:

All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;

- A = Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity; and
- B = Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System.

**Permitted Debt** shall have the meaning as defined in Section 6.13.

**Prior Loan Contracts** shall mean all loan and loan guarantee agreements, if any, previously entered into by and between RUS and the Borrower.

**Regulatory Created Assets** shall mean the sum of any amounts properly recordable as unrecovered plant and regulatory study costs or as other regulatory assets, computed pursuant to RUS Accounting Requirements.

**Reimbursement Note** shall mean any demand note of the Borrower which evidences the Borrower's obligation to immediately repay RUS any payments which RUS makes on behalf of the Borrower on the Note pursuant to a RUS guaranty if one has been provided under the terms of the RUS Commitment.

**RUS Accounting Requirements** shall mean any system of accounts prescribed by RUS Regulations as such RUS Accounting Requirements exist at the date of applicability thereof.

**RUS Commitment** shall have the meaning as defined in Schedule 1 hereto.

**RUS Regulations** shall mean regulations of general applicability published by RUS from time to time as they exist at the date of applicability thereof, and shall also include any regulations of other federal entities which RUS is required by law to implement.

**Special Construction Account** shall have the meaning as defined in Section 5.21.

**Subsidiary** shall mean a corporation that is a subsidiary of the Borrower and subject to the Borrower's control, as defined by RUS Accounting Requirements.

**Termination Date** shall mean the date specified in the Note after which no further Advances shall be made under the terms of the RUS Commitment.

**Times Interest Earned Ratio ("TIER")** shall have the meaning provided in the Mortgage.

**Total Assets** shall mean an amount constituting the total assets of the Borrower as computed pursuant to RUS Accounting Requirements, but excluding any Regulatory Created Assets.

**Total Utility Plant** shall mean the amount constituting the total utility plant of the Borrower computed in accordance with RUS Accounting Requirements.

**Utility System** shall have the meaning as defined in the Mortgage.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

#### Section 2.1. Representations and Warranties.

To induce RUS to make the Loan, and recognizing that RUS is relying hereon, the Borrower represents and warrants as follows:

- (a) **Organization; Power, Etc. The Borrower:** (i) is an organization of the type and organized in the jurisdiction set forth on the first page hereof, and is duly organized, validly existing, and in good standing under the laws of its state of incorporation; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary; (iii) has all requisite corporate and legal power to own and operate its assets and to carry on its business and to enter into and perform the Loan Documents; (iv) has duly and lawfully obtained and maintained all licenses, certificates, permits, authorizations, approvals, and the like which are material to the conduct of its business or which may be otherwise required by law; and (v) is eligible to obtain the financial assistance from RUS contemplated by this Agreement.
- (b) **Authority.** The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents and the performance of the transactions contemplated thereby have been duly authorized by all necessary corporate action and shall not violate any provision of law or of the Articles of Incorporation or By-Laws of the Borrower or result in a breach of, or constitute a default under, any agreement, indenture or other instrument to

which the Borrower is a party or by which it may be bound.

- (c) Consents. No consent, permission, authorization, order, or license of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Loan Documents, except (i) such as have been obtained and are in full force and effect and (ii) such as have been disclosed on Schedule 1 hereto.
- (d) Binding Agreement. Each of the Loan Documents is, or when executed and delivered shall be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally.
- (e) Compliance with Laws. The Borrower is in compliance in all material respects with all federal, state, and local laws, rules, regulations, ordinances, codes, and orders (collectively, "Laws"), the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents, except as the Borrower has disclosed to RUS in writing.
- (f) Litigation. There are no pending legal, arbitration, or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties, profits or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents, and to the best of the Borrower's knowledge, no such actions or proceedings are threatened or contemplated, except as the Borrower has disclosed to RUS in writing.
- (g) Title to Property. As to property which is presently included in the description of Mortgaged Property, the Borrower holds good and marketable title to all of its real property and owns all of its personal property free and clear of any Lien except Permitted Encumbrances or Liens permitted under the Mortgage.
- (h) Financial Statements; No Material Adverse Change; Etc. All financial statements submitted to RUS in connection with the application for the Loan or in connection with this Agreement fairly and fully present the financial condition of the Borrower and the results of the Borrower's operations for the periods covered thereby and are prepared in accordance with RUS Accounting Requirements consistently applied. Since the dates thereof, there has been no material adverse change in the financial condition or operations of the Borrower. All budgets, projections, feasibility studies, and other documentation submitted by the Borrower to RUS are based upon assumptions that are reasonable and realistic, and as of the date hereof, no fact has come to light, and no event or transaction has occurred, which would cause any assumption made therein not to be reasonable or realistic.
- (i) Principal Place of Business; Records. The principal place of business and chief executive office of the Borrower is at the address of the Borrower shown on Schedule 1 attached hereto.
- (j) Location of Properties. All property owned by the Borrower is located in the counties identified in Schedule 1 hereto.
- (k) Subsidiaries. The Borrower has no subsidiary, except as the Borrower has disclosed to RUS in writing.

- (l) Legal Name. The Borrower's exact legal name is that indicated on the signature page.
- (m) Organizational Number. Schedule 1 hereto accurately sets forth the Borrower's organizational identification number or accurately states that the Borrower has none.
- (n) Defaults Under Other Agreements. The Borrower is not in default under any agreement or instrument to which it is a party or under which any of its properties are subject that is material to its financial condition, operations, properties, profits, or business.
- (o) Survival. All representations and warranties made by the Borrower herein or made in any certificate delivered pursuant hereto shall survive the making of the Advances and the execution and delivery to RUS of the Note.

### ARTICLE III

#### LOAN

##### **Section 3.1. Advances.**

RUS agrees to make, or in the case of any loan guaranteed by RUS, approve, and the Borrower agrees to request, on the terms and conditions of this Agreement, Advances from time to time in an aggregate principal amount not to exceed the RUS Commitment. On the Termination Date, RUS may stop advancing funds and limit the RUS Commitment to the amount advanced prior to such date. The obligation of the Borrower to repay the Advances shall be evidenced by the Note in the principal amount of the unpaid principal amount of the Advances from time to time outstanding. The Borrower shall give RUS written notice of the date on which each Advance is to be made.

##### **Section 3.2. Interest Rate and Payment.**

Each Note shall be payable and bear interest as follows:

- (a) Payments and Amortization. Principal shall be amortized in accordance with one or more methods stated in Schedule 1 hereto and more fully described in the form of each Note attached hereto as Exhibit A.
- (b) Application of Payments. All payments which the Borrower sends to RUS on any outstanding obligation owed to or guaranteed by RUS shall be applied in the manner provided in the Borrower's Loan Documents to which such payments relate and in a manner consistent with RUS policies, practices, and procedures for obligations that have been similarly classified by RUS.
- (c) Electronic Funds Transfer. Except as otherwise prescribed by RUS, the Borrower shall make all payments on each Note utilizing electronic funds transfer procedures as specified by RUS.
- (d) Fixed or Variable Rate. Each Note shall bear interest at either a fixed or variable rate in accordance with one or more methods stated in Schedule 1 hereto and as more particularly described in the form of each Note attached hereto as Exhibit A.

##### **Section 3.3. Prepayment.**

The Borrower has no right to prepay a Note in whole or in part except such rights, if any, as are

expressly provided for in a Note or applicable federal statutes. However, prepayment of a Note (and any penalties) shall be mandatory under Section 5.3 hereof if the Borrower has used a Contemporaneous Loan in order to qualify for the RUS Commitment, and later prepays the Contemporaneous Loan.

## ARTICLE IV CONDITIONS OF LENDING

### Section 4.1. General Conditions.

The obligation of RUS to make or, in the case of any Loan guaranteed by RUS, approve to be made any Advance hereunder is subject to satisfaction of each of the following conditions precedent on or before the date of such Advance:

- (a) Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for RUS.
- (b) Loan Documents. That RUS receive duly executed originals of this Agreement and the other Loan Documents.
- (c) Authorization. That RUS receive evidence satisfactory to it that all corporate documents and proceedings of the Borrower necessary for duly authorizing the execution, delivery and performance of the Loan Documents have been obtained and are in full force and effect.
- (d) Approvals. That RUS receive evidence satisfactory to it that all consents and approvals (including without limitation the consents referred to in Section 2.1(c) of this Agreement) which are necessary for, or required as a condition of, the validity and enforceability of each of the Loan Documents have been obtained and are in full force and effect.
- (e) Event of Default. That no Event of Default specified in Article VII and no event which, with the lapse of time or the notice and lapse of time specified in Article VII would become such an Event of Default, shall have occurred and be continuing, or shall have occurred after giving effect to the Advance on the books of the Borrower.
- (f) Continuing Representations and Warranties. That the representations and warranties of the Borrower contained in this Agreement be true and correct on and as of the date of such Advance as though made on and as of such date.
- (g) Opinion of Counsel. That RUS receive an opinion of counsel for the Borrower (who shall be acceptable to RUS) in form and content acceptable to RUS.
- (h) Mortgage Filing. The Mortgage shall have been duly recorded as a mortgage on real property, including after-acquired real property, and a financing statement shall have been duly filed, recorded and indexed as a security interest in personal property, including after acquired personal property, wherever RUS shall have requested, all in accordance with applicable law, and the Borrower shall have caused satisfactory evidence thereof to be furnished to RUS.
- (i) Wholesale Power Contract. That the Borrower shall not be in default under the terms of, or contesting the validity of, any contract for sales for resale that has been pledged by any entity to RUS as security for the repayment of any loan made or guaranteed by RUS under



the Act.

- (j) Material Adverse Change. That there has occurred no material adverse change in the business or condition, financial or otherwise, of the Borrower and nothing has occurred which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations hereunder.
- (k) Requisitions. That the Borrower shall requisition all Advances by submitting its requisition to RUS in form and substance satisfactory to RUS. Requisitions shall be made only for the purpose(s) set forth herein. The Borrower agrees to apply the proceeds of the Advances in accordance with its loan application with such modifications as may be mutually agreed.
- (l) Flood Insurance. That for any Advance used in whole or in part to finance the construction or acquisition of any building in any area identified by the Secretary of Housing and Urban Development pursuant to the Flood Disaster Protection Act of 1973 (the "Flood Insurance Act") or any rules, regulations or orders issued to implement the Flood Insurance Act ("Rules") as any area having special flood hazards, or to finance any facilities or materials to be located in any such building, or in any building owned or occupied by the Borrower and located in such a flood hazard area, the Borrower has submitted evidence, in form and substance satisfactory to RUS, or RUS has otherwise determined, that (i) the community in which such area is located is then participating in the national flood insurance program, as required by the Flood Insurance Act and any Rules, and (ii) the Borrower has obtained flood insurance coverage with respect to such building and contents as may then be required pursuant to the Flood Insurance Act and any Rules.
- (m) Compliance with Loan Contract and Mortgage. That the Borrower is in material compliance with all provisions of this Agreement and the Mortgage.

**Section 4.2. Special Conditions.**

The obligation of RUS to make or, in the case of any Loan guaranteed by RUS, approve to be made any Advance hereunder is also subject to satisfaction, on or before the date of such Advance, of each of the special conditions, if any, listed in Schedule 1 hereto.

**ARTICLE V**

**AFFIRMATIVE COVENANTS**

**Section 5.1. Generally.**

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding, the Borrower agrees to duly observe each of the affirmative covenants contained in this Article.

**Section 5.2. Annual Certificates.**

- (a) Performance under Loan Documents. The Borrower shall duly observe and perform all of its obligations under each of the Loan Documents.
- (b) Annual Certification. Within ninety (90) days after the close of each calendar year, commencing with the year following the year in which the initial Advance hereunder shall have been made, the Borrower shall deliver to RUS a written statement signed by its

General Manager, stating that during such year the Borrower has fulfilled all of its obligations under the Loan Documents throughout such year in all material respects or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof.

**Section 5.3. Simultaneous Prepayment of Contemporaneous Loans.**

If the Borrower shall at any time prepay in whole or in part the Contemporaneous Loan described on Schedule 1, the Borrower shall prepay the RUS Note correspondingly in order to maintain the ratio that the Contemporaneous Loan bears to the RUS Commitment. If the RUS Note calls for a prepayment penalty or premium, such amount shall be paid but shall not be used in computing the amount needed to be paid to RUS under this section to maintain such ratio. In the case of Contemporaneous Loans and RUS Notes existing prior to the date of this Agreement under previous agreements, prepayments shall be treated as if governed by this section. Provided, however, in all cases prepayments associated with refinancing or refunding a Contemporaneous Loan pursuant to Article II of the Mortgage are not considered to be prepayments for purposes of this Agreement if they satisfy each of the following requirements:

- (a) Principal. The principal amount of such refinancing or refunding loan is not less than the amount of loan principal being refinanced; and
- (b) Weighted Average Life. The weighted average life of the refinancing or refunding loan is not less than the weighted average remaining life of the loan being refinanced.

**Section 5.4. Rates to Provide Revenue Sufficient to Meet Coverage Ratios Requirements.**

- (a) Prospective Requirement. The Borrower shall design and implement rates for utility service furnished by it to provide sufficient revenue (along with other revenue available to the Borrower in the case of TIER and DSC) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the Coverage Ratios. In designing and implementing rates under this paragraph, such rates should be capable of producing at least enough revenue to meet the requirements of this paragraph under the assumption that average weather conditions in the Borrower's service territory shall prevail in the future, including average Utility System damage and outages due to weather and the related costs.
- (b) Retrospective Requirement. The average Coverage Ratios achieved by the Borrower in the 2 best years out of the 3 most recent calendar years must be not less than any of the following:

TIER =	1.25
DSC =	1.25
OTIER =	1.1
ODSC =	1.1

- (c) Prospective Notice of Change in Rates. The Borrower shall give thirty (30) days prior written notice of any proposed change in its general rate structure to RUS if RUS has requested in writing that it be notified in advance of such changes.
- (d) Routine Reporting of Coverage Ratios. Promptly following the end of each calendar year, the Borrower shall report, in writing, to RUS the TIER, Operating TIER, DSC and Operating DSC levels which were achieved during that calendar year.

- (e) Reporting Non-achievement of Retrospective Requirement. If the Borrower fails to achieve the average levels required by paragraph (b) of this section, it must promptly notify RUS in writing to that effect.
- (f) Corrective Plans. Within 30 days of sending a notice to RUS under paragraph (e) of this section, or of being notified by RUS, whichever is earlier, the Borrower in consultation with RUS, shall provide a written plan satisfactory to RUS setting forth the actions that shall be taken to achieve the required Coverage Ratios on a timely basis.
- (g) Noncompliance. Failure to design and implement rates pursuant to paragraph (a) of this section and failure to develop and implement the plan called for in paragraph (f) of this section shall constitute an Event of Default under this Agreement in the event that RUS so notifies the Borrower to that effect under section 7.1(d) of this Agreement.

**Section 5.5. Depreciation Rates.**

The Borrower shall adopt as its depreciation rates only those which have been previously approved for the Borrower by RUS.

**Section 5.6. Property Maintenance.**

The Borrower shall maintain and preserve its Utility System in compliance in all material respects with the provisions of the Mortgage, RUS Regulations and all applicable laws.

**Section 5.7. Financial Books.**

The Borrower shall at all times keep, and safely preserve, proper books, records and accounts in which full and true entries shall be made of all of the dealings, business and affairs of the Borrower and its Subsidiaries, in accordance with any applicable RUS Accounting Requirements.

**Section 5.8. Rights of Inspection.**

The Borrower shall afford RUS, through its representatives, reasonable opportunity, at all times during business hours and upon prior notice, to have access to and the right to inspect the Utility System, any other property encumbered by the Mortgage, and any or all books, records, accounts, invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in anyway pertaining to its property or business, including its Subsidiaries, if any, and to make copies or extracts therefrom.

**Section 5.9. Area Coverage.**

- (a) The Borrower shall make diligent effort to extend electric service to all unserved persons within the service area of the Borrower who (i) desire such service and (ii) meet all reasonable requirements established by the Borrower as a condition of such service.
- (b) If economically feasible and reasonable considering the cost of providing such service and/or the effects on consumers' rates, such service shall be provided, to the maximum extent practicable, at the rates and minimum charges established in the Borrower's rate schedules, without the payment of such persons, other than seasonal or temporary consumers, of a contribution in aid of construction. A seasonal consumer is one that demands electric service only during certain seasons of the year. A temporary consumer is a seasonal or year-round consumer that demands electric service over a period of less than five years.

- (c) The Borrower may assess contributions in aid of construction provided such assessments are consistent with this section.

**Section 5.10. Real Property Acquisition.**

In acquiring real property, the Borrower shall comply in all material respects with the provisions of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (the "Uniform Act"), as amended by the Uniform Relocation Act Amendments of 1987, and 49 CFR part 24, referenced by 7 CFR part 21, to the extent the Uniform Act is applicable to such acquisition.

**Section 5.11. "Buy American" Requirements.**

The Borrower shall use or cause to be used in connection with the expenditures of funds advanced on account of the Loan only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States or any eligible country, and only such manufactured articles, materials, and supplies as have been manufactured in the United States or any eligible country substantially all from articles, materials, and supplies mined, produced or manufactured, as the case may be, in the United States or any eligible country, except to the extent RUS shall determine that such use shall be impracticable or that the cost thereof shall be unreasonable. For purposes of this section, an "eligible country" is any country that applies with respect to the United States an agreement ensuring reciprocal access for United States products and services and United States suppliers to the markets of that country, as determined by the United States Trade Representative.

**Section 5.12. Power Requirements Studies.**

The Borrower shall prepare and use power requirements studies of its electric loads and future energy and capacity requirements in conformance with RUS Regulations.

**Section 5.13. Long Range Engineering Plans and Construction Work Plans.**

The Borrower shall develop, maintain and use up-to-date long-range engineering plans and construction work plans in conformance with RUS Regulations.

**Section 5.14. Design Standards, Construction Standards, and List of Materials.**

The Borrower shall use design standards, construction standards, and lists of acceptable materials in conformance with RUS Regulations.

**Section 5.15. Plans and Specifications.**

The Borrower shall submit plans and specifications for construction to RUS for review and approval, in conformance with RUS Regulations, if the construction will be financed in whole or in part by a loan made or guaranteed by RUS.

**Section 5.16. Standard Forms of Construction Contracts, and Engineering and Architectural Services Contracts.**

The Borrower shall use the standard forms of contracts promulgated by RUS for construction,

procurement, engineering services and architectural services in conformance with RUS Regulations, if the construction, procurement, or services are being financed in whole or in part by a loan being made or guaranteed by RUS.

**Section 5.17. Contract Bidding Requirements.**

The Borrower shall follow RUS contract bidding procedures in conformance with RUS Regulations when contracting for construction or procurement financed in whole or in part by a loan made or guaranteed by RUS.

**Section 5.18. Nondiscrimination.**

- (a) Equal Opportunity Provisions in Construction Contracts. The Borrower shall incorporate or cause to be incorporated into any construction contract, as defined in Executive Order 11246 of September 24, 1965 and implementing regulations, which is paid for in whole or in part with funds obtained from RUS or borrowed on the credit of the United States pursuant to a grant, contract, loan, insurance or guarantee, or undertaken pursuant to any RUS program involving such grant, contract, loan, insurance or guarantee, the equal opportunity provisions set forth in Exhibit B hereto entitled Equal Opportunity Contract Provisions.
- (b) Equal Opportunity Contract Provisions Also Bind the Borrower. The Borrower further agrees that it shall be bound by such equal opportunity clause in any federally assisted construction work which it performs itself other than through the permanent work force directly employed by an agency of government.
- (c) Sanctions and Penalties. The Borrower agrees that it shall cooperate actively with RUS and the Secretary of Labor in obtaining the compliance of contractors and subcontractors with the equal opportunity clause and the rules, regulations and relevant orders of the Secretary of Labor, that it shall furnish RUS and the Secretary of Labor such information as they may require for the supervision of such compliance, and that it shall otherwise assist the administering agency in the discharge of RUS's primary responsibility for securing compliance. The Borrower further agrees that it shall refrain from entering into any contract or contract modification subject to Executive Order 11246 with a contractor debarred from, or who has not demonstrated eligibility for, Government contracts and federally assisted construction contracts pursuant to Part II, Subpart D of Executive Order 11246 and shall carry out such sanctions and penalties for violation of the equal opportunity clause as may be imposed upon contractors and subcontractors by RUS or the Secretary of Labor pursuant to Part II, Subpart D of Executive Order 11246. In addition, the Borrower agrees that if it fails or refuses to comply with these undertakings RUS may cancel, terminate or suspend in whole or in part this contract, may refrain from extending any further assistance under any of its programs subject to Executive Order 11246 until satisfactory assurance of future compliance has been received from such Borrower, or may refer the case to the Department of Justice for appropriate legal proceedings.

**Section 5.19. Financial Reports.**

The Borrower shall cause to be prepared and furnished to RUS a full and complete annual report of its financial condition and of its operations in form and substance satisfactory to RUS, audited and certified by Independent certified public accountants satisfactory to RUS and accompanied by a report of such audit in form and substance satisfactory to RUS. The Borrower shall also furnish to RUS from time to time such other reports concerning the financial condition or operations of the Borrower, including its Subsidiaries, as RUS may reasonably request or RUS Regulations require.

**Section 5.20. Miscellaneous Reports and Notices.**

The Borrower shall furnish to RUS:

- (a) Notice of Default. Promptly after becoming aware thereof, notice of: (i) the occurrence of any default; and (ii) the receipt of any notice given pursuant to the Mortgage with respect to the occurrence of any event which with the giving of notice or the passage of time, or both, could become an "Event of Default" under the Mortgage.
- (b) Notice of Non-Environmental Litigation. Promptly after the commencement thereof, notice of the commencement of all actions, suits or proceedings before any court, arbitrator, or governmental department, commission, board, bureau, agency, or instrumentality affecting the Borrower which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (c) Notice of Environmental Litigation. Without limiting the provisions of Section 5.20(b) above, promptly after receipt thereof, notice of the receipt of all pleadings, orders, complaints, indictments, or other communications alleging a condition that may require the Borrower to undertake or to contribute to a cleanup or other response under laws relating to environmental protection, or which seek penalties, damages, injunctive relief, or criminal sanctions related to alleged violations of such laws, or which claim personal injury or property damage to any person as a result of environmental factors or conditions for which the Borrower is not fully covered by insurance, or which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (d) Notice of Change of Place of Business. Promptly in writing, notice of any change in location of its principal place of business or the office where its records concerning accounts and contract rights are kept.
- (e) Regulatory and Other Notices. Promptly after receipt thereof, copies of any notices or other communications received from any governmental authority with respect to any matter or proceeding which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower, or on the ability of the Borrower to perform its obligations under the Loan Documents.
- (f) Material Adverse Change. Promptly, notice of any matter which has resulted or may result in a material adverse change in the condition, financial or otherwise, operations, properties, or business of the Borrower, or the ability of the Borrower to perform its obligations under the Loan Documents.
- (g) Assignment of Organizational Number. If the Borrower does not have an organizational identification number and later has one assigned to it, the Borrower will promptly notify RUS of such assigned organizational identification number.
- (h) Other Information. Such other information regarding the condition, financial or otherwise, or operations of the Borrower as RUS may, from time to time, reasonably request.

**Section 5.21. Special Construction Account.**

The Borrower shall hold all moneys advanced to it by RUS hereunder in trust for RUS and shall deposit such moneys promptly after the receipt thereof in a bank or banks which meet the requirements of Section 6.7 of this Agreement. Any account (hereinafter called "Special Construction Account") in which any such moneys shall be deposited shall be insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS and shall be designated by the corporate name of the Borrower followed by the words "Trustee, Special Construction Account." Moneys in any Special Construction Account shall be used solely for the construction and operation of the Utility System and may be withdrawn only upon checks, drafts, or orders signed on behalf of the Borrower and countersigned by an executive officer thereof.

**Section 5.22. Additional Affirmative Covenants.**

The Borrower also agrees to comply with any additional affirmative covenant(s) identified in Schedule 1 hereto.

**ARTICLE VI**

**NEGATIVE COVENANTS**

**Section 6.1. General.**

Unless otherwise agreed to in writing by RUS, while this Agreement is in effect, whether or not any Advance is outstanding hereunder, the Borrower shall duly observe each of the negative covenants set forth in this Article.

**Section 6.2. Limitations on System Extensions and Additions.**

- (a) The Borrower shall not extend or add to its Electric System either by construction or acquisition without the prior written approval of RUS if the construction or acquisition is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee.
- (b) The Borrower shall not extend or add to its Electric System with funds from other sources without prior written approval of RUS in the case of:
  - (1) Generating facilities if the combined capacity of the facilities to be built, procured, or leased, including any future facilities included in the planned project, will exceed the lesser of 5 Megawatts or 30 percent of the Borrower's Equity;
  - (2) Existing electric facilities or systems in service whose purchase price, or capitalized value in the case of a lease, exceeds ten percent of the Borrower's Net Utility Plant; and
  - (3) Any project to serve a customer whose annual kWh purchases or maximum annual kW demand is projected to exceed 25 percent of the Borrower's total kWh sales or maximum kW demand in the year immediately preceding the acquisition or start of construction of facilities.

**Section 6.3. Limitations on Changing Principal Place of Business.**

The Borrower shall not change its principal place of business or keep property in a county not shown on a schedule to the Mortgage if the change would cause the lien in favor of RUS to become unperfected or fail to become perfected, as the case may be, unless, prior thereto, the

Borrower shall have taken all steps required by law in order to assure that the lien in favor of RUS remains or becomes perfected, as the case may be, and, in either event, such lien has the priority accorded by the Mortgage.

**Section 6.4. Limitations on Employment and Retention of Manager.**

At any time any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing the Borrower shall not employ any general manager of the Utility System or the Electric System or any person exercising comparable authority to such a manager unless such employment shall first have been approved by RUS. If any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing and RUS requests the Borrower to terminate the employment of any such manager or person exercising comparable authority, or RUS requests the Borrower to terminate any contract for operating the Utility System or the Electric System, the Borrower shall do so within thirty (30) days after the date of such notice. All contracts in respect of the employment of any such manager or person exercising comparable authority, or for the operation of the Utility System or the Electric System, shall contain provisions to permit compliance with the foregoing covenants.

**Section 6.5. Limitations on Certain Types of Contracts.**

Without the prior approval of RUS in writing, the Borrower shall not enter into any of the following contracts:

- (a) Construction contracts. Any contract for construction or procurement or for architectural and engineering services in connection with its Electric System if the project is financed or will be financed, in whole or in part, by a RUS loan or loan guarantee;
- (b) Large retail power contracts. Any contract to sell electric power and energy for periods exceeding two (2) years if the kWh sales or kW demand for any year covered by such contract shall exceed 25 percent of the Borrower's total kWh sales or maximum kW demand for the year immediately preceding the execution of such contract;
- (c) Wholesale power contracts. Any contract to sell electric power or energy for resale and any contract to purchase electric power or energy that, in either case, has a term exceeding two (2) years;
- (d) Power supply arrangements. Any interconnection agreement, interchange agreement, wheeling agreement, pooling agreement or similar power supply arrangement that has a term exceeding two (2) years;
- (e) System management and maintenance contracts. Any contract for the management and operation of all or substantially all of its Electric System; or
- (f) Other contracts. Any contracts of the type described on Schedule 1.

**Section 6.6. Limitations on Mergers and Sale, Lease or Transfer of Capital Assets.**

- (a) The Borrower shall not consolidate with, or merge, or sell all or substantially all of its business or assets, to another entity or person except to the extent it is permitted to do so under the Mortgage. The exception contained in this paragraph (a) is subject to the additional limitation set forth in paragraph (b) of this section.



- (b) The Borrower shall not, without the written approval of RUS, voluntarily or involuntarily sell, convey or dispose of any portion of its business or assets (including, without limitation, any portion of its franchise or service territory) to another entity or person if such sale, conveyance or disposition could reasonably be expected to reduce the Borrower's existing or future requirements for energy or capacity being furnished to the Borrower under any wholesale power contract which has been pledged as security to RUS.

**Section 6.7. Limitations on Using non-FDIC Insured Depositories.**

Without the prior written approval of RUS, the Borrower shall not place the proceeds of the Loan or any loan which has been made or guaranteed by RUS in the custody of any bank or other depository that is not insured by the Federal Deposit Insurance Corporation or other federal agency acceptable to RUS.

**Section 6.8. Limitation on Distributions.**

Without the prior written approval of RUS, the Borrower shall not in any calendar year make any Distributions (exclusive of any Distributions to the estates of deceased natural patrons) to its members, stockholders or consumers except as follows:

- (a) Equity above 30%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 30% of its Total Assets; or
- (b) Equity above 20%. If, after giving effect to any such Distribution, the Equity of the Borrower shall be greater than or equal to 20% of its Total Assets and the aggregate of all Distributions made during the calendar year when added to such Distribution shall be less than or equal to 25% of the prior year's margins.

Provided however, that in no event shall the Borrower make any Distributions if there is unpaid when due any installment of principal of (premium, if any) or interest on any of its payment obligations secured by the Mortgage, if the Borrower is otherwise in default hereunder or if, after giving effect to any such Distribution, the Borrower's current and accrued assets would be less than its current and accrued liabilities.

**Section 6.9. Limitations on Loans, Investments and Other Obligations.**

The Borrower shall not make any loan or advance to, or make any investment in, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of, or guaranty, assume or otherwise become obligated or liable with respect to the obligations of, any other person, firm or corporation, except as permitted by the Act and RUS Regulations.

**Section 6.10. Depreciation Rates.**

The Borrower shall not file with or submit for approval of regulatory bodies any proposed depreciation rates which are inconsistent with RUS Regulations.

**Section 6.11. Historic Preservation.**

The Borrower shall not, without approval in writing by RUS, use any Advance to construct any facilities which shall involve any district, site, building, structure or object which is included in, or eligible for inclusion in, the National Register of Historic Places maintained by the Secretary of the Interior pursuant to the Historic Sites Act of 1935 and the National Historic Preservation Act of 1966.

**Section 6.12. Rate Reductions.**

Without the prior written approval of RUS, the Borrower shall not decrease its rates if it has failed to achieve all of the Coverage Ratios for the calendar year prior to such reduction.

**Section 6.13. Limitations on Additional Indebtedness.**

Except as expressly permitted by Article II of the Mortgage and subject to the further limitations expressed in the next section, the Borrower shall not incur, assume, guarantee or otherwise become liable in respect of any debt for borrowed money and Restricted Rentals (including Subordinated Indebtedness) other than the following: ("Permitted Debt")

- (a) Additional Notes issued in compliance with Article II of the Mortgage;
- (b) Purchase money indebtedness in non-Utility System property, in an amount not exceeding 10% of Net Utility Plant;
- (c) Restricted Rentals in an amount not to exceed 5% of Equity during any 12 consecutive calendar month period;
- (d) Unsecured lease obligations incurred in the ordinary course of business except Restricted Rentals;
- (e) Unsecured indebtedness for borrowed money, except when the aggregate amount of such indebtedness exceeds 15% of Net Utility Plant and after giving effect to such unsecured indebtedness the Borrower's Equity is less than 30% of its Total Assets;
- (f) Debt represented by dividends declared but not paid; and
- (g) Subordinated Indebtedness approved by RUS.

PROVIDED, However, that the Borrower may incur Permitted Debt without the consent of RUS only so long as there exists no Event of Default hereunder and there has been no continuing occurrence which with the passage of time and giving of notice could become an Event of Default hereunder.

PROVIDED, FURTHER, by executing this Agreement any consent of RUS that the Borrower would otherwise be required to obtain under this section is hereby deemed to be given or waived by RUS by operation of law to the extent, but only to the extent, that to impose such a requirement of RUS consent would clearly violate federal laws or RUS Regulations.

**Section 6.14. Limitations on Issuing Additional Indebtedness Secured Under the Mortgage.**

- (a) The Borrower shall not issue any Additional Notes under the Mortgage to finance Eligible Property Additions without the prior written consent of RUS unless the following additional requirements are met in addition to the requirements set forth in the Mortgage for issuing Additional Notes:
  - (1) The weighted average life of the loan evidenced by such Notes does not exceed the weighted average of the expected remaining useful lives of the assets being financed;
  - (2) The principal of the loan evidenced by such Notes is amortized at a rate that shall

yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest; and

- (3) The principal of the loan being evidenced by such Notes has a maturity of not less than 5 years.
- (b) The Borrower shall not issue any Additional Notes under the Mortgage to refund or refinance Notes without the prior written consent of RUS unless, in addition to the requirements set forth in the Mortgage for issuing Refunding or Refinancing Notes, the weighted average life of any such Refunding or Refinancing Notes is not greater than the weighted average remaining life of the Notes being refinanced.
- (c) Any request for consent from RUS under this section, shall be accompanied by a certificate of the Borrower's manager substantially in the form attached to this Agreement as Exhibit C-1 in the case of Notes being issued under Section 2.01 of the Mortgage and C-2 in the case of Notes being issued under Section 2.02 of the Mortgage.

**Section 6.15. Impairment of Contracts Pledged to RUS.**

The Borrower shall not materially breach any obligation to be paid or performed by the Borrower on any contract, or take any action which is likely to materially impair the value of any contract, which has been pledged as security to RUS by the Borrower or any other entity.

**Section 6.16. Notice of Organizational Changes.**

The Borrower covenants and agrees with RUS that the Borrower will not, directly or indirectly, without giving written notice to RUS thirty (30) days prior to the effective date:

- (a) Change the name of the Borrower
- (b) Change the mailing address of the Borrower, and
- (c) Change its organizational identification number if it has one.

**Section 6.17. Consent for Organizational Changes.**

The Borrower covenants and agrees with RUS that the Borrower will not, directly or indirectly, without the prior written consent of RUS change its type of organization, jurisdiction of organization or other legal structure.

**Section 6.18. Additional Negative Covenants.**

The Borrower also agrees to comply with any additional negative covenant(s) identified in Schedule 1 hereto.

**ARTICLE VII**  
**EVENTS OF DEFAULT**

**Section 7.1. Events of Default.**

The following shall be Events of Default under this Agreement:

- (a) Representations and Warranties. Any representation or warranty made by the Borrower in Article II hereof or any certificate furnished to RUS hereunder or under the Mortgage shall prove to have been incorrect in any material respect at the time made and shall at the time in question be untrue or incorrect in any material respect and remain uncured;
- (b) Payment. Default shall be made in the payment of or on account of interest on or principal of the Note or any other Government Note when and as the same shall be due and payable, whether by acceleration or otherwise, which shall remain unsatisfied for five (5) Business Days;
- (c) Borrowing Under the Mortgage in Violation of the Loan Contract. Default by the Borrower in the observance or performance of any covenant or agreement contained in Section 6.14 of this Agreement;
- (d) Other Covenants. Default by the Borrower in the observance or performance of any other covenant or agreement contained in any of the Loan Documents, which shall remain unremedied for 30 calendar days after written notice thereof shall have been given to the Borrower by RUS;
- (e) Corporate Existence. The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business;
- (f) Other Obligations. Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation;
- (g) Bankruptcy. A court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of ninety (90) consecutive days or the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors; and
- (h) Dissolution or Liquidation. Other than as provided in the immediately preceding subsection, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as shall impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within 30 days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be

construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions.

## ARTICLE VIII

### REMEDIES

#### Section 8.1. Generally.

Upon the occurrence of an Event of Default, then RUS may pursue all rights and remedies available to RUS that are contemplated by this Agreement or the Mortgage in the manner, upon the conditions, and with the effect provided in this Agreement or the Mortgage, including, but not limited to, a suit for specific performance, injunctive relief or damages. Nothing herein shall limit the right of RUS to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default listed in Article VII hereof. Each right, power and remedy of RUS shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

#### Section 8.2. Suspension of Advances.

In addition to the rights, powers and remedies referred to in the immediately preceding section, RUS may, in its absolute discretion, suspend making or, in the case of any Loan guaranteed by RUS, approving Advances hereunder if (i) any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing; (ii) there has occurred a change in the business or condition, financial or otherwise, of the Borrower which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations under the Loan Documents, or (iii) RUS is authorized to do so under RUS Regulations.

## ARTICLE IX

### MISCELLANEOUS

#### Section 9.1. 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 transmitted by telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as provided for herein. The Address for Notices of the respective parties are set forth in Schedule 1 hereto.

#### Section 9.2. Expenses.

To the extent allowed by law, the Borrower shall pay all costs and expenses of RUS, including reasonable fees of counsel, incurred in connection with the enforcement of the Loan Documents or with the preparation for such enforcement if RUS has reasonable grounds to believe that such

enforcement may be necessary.

**Section 9.3. Late Payments.**

If payment of any amount due hereunder is not received at the United States Treasury in Washington, DC, or such other location as RUS may designate to the Borrower within five (5) Business Days after the due date thereof or such other time period as RUS may prescribe from time to time in its policies of general application in connection with any late payment charge (such unpaid amount being herein called the "delinquent amount", and the period beginning after such due date until payment of the delinquent amount being herein called the "late-payment period"), the Borrower shall pay to RUS, in addition to all other amounts due under the terms of the Note, the Mortgage and this Agreement, any late-payment charge as may be fixed by RUS Regulations from time to time on the delinquent amount for the late-payment period.

**Section 9.4. Filing Fees.**

To the extent permitted by law, the Borrower agrees to pay all expenses of RUS (including the fees and expenses of its counsel) in connection with the filing or recordation of all financing statements and instruments as may be required by RUS in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to recordation of any document or instrument in connection herewith. Borrower agrees to save harmless and indemnify RUS from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by RUS in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due hereunder or due on the Note.

**Section 9.5. No Waiver.**

No failure on the part of RUS to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise by RUS of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

**Section 9.6. Governing Law.**

EXCEPT TO THE EXTENT GOVERNED BY APPLICABLE FEDERAL LAW, THE LOAN DOCUMENTS SHALL BE DEEMED TO BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE IN WHICH THE BORROWER IS INCORPORATED.

**Section 9.7. Holiday Payments.**

If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

**Section 9.8. Rescission.**

The Borrower may elect not to borrow the RUS Commitment in which event RUS shall release the Borrower from its obligations hereunder, provided the Borrower complies with such terms and conditions as RUS may impose for such release and provided also that if the Borrower has any remaining obligations to RUS for loans made or guaranteed by RUS under any Prior Loan

Contracts, RUS may, under Section 9.15 of this Loan Contract, withhold such release until all such obligations have been satisfied and discharged.

**Section 9.9. Successors and Assigns.**

This Agreement shall be binding upon and inure to the benefit of the Borrower and RUS and their respective successors and assigns, except that the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of RUS.

**Section 9.10. Complete Agreement; Waivers and Amendments.**

Subject to RUS Regulations, this Agreement and the other Loan Documents are intended by the parties to be a complete and final expression of their agreement. However, RUS reserves the right to waive its rights to compliance with any provision of this Agreement and the other Loan Documents. No amendment, modification, or waiver of any provision hereof or thereof, and no consent to any departure of the Borrower herefrom or therefrom, shall be effective unless approved in writing by RUS in the form of either a RUS Regulation or other writing signed by or on behalf of RUS, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

**Section 9.11. Headings.**

The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

**Section 9.12. Severability.**

If any term, provision or condition, or any part thereof, of this Agreement or the Mortgage shall for any reason be found or held invalid or unenforceable by any governmental agency or court 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, the Note, and the Mortgage shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

**Section 9.13. Right of Setoff.**

Upon the occurrence and during the continuance of any Event of Default, RUS 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 RUS 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 or under the Note. RUS 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 RUS under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which RUS may have. Borrower waives all rights of setoff, deduction, recoupment or counterclaim.

**Section 9.14. Schedules and Exhibits.**

Each Schedule and Exhibit attached hereto and referred to herein is each an integral part of this Agreement.

**Section 9.15. Prior Loan Contracts.**

With respect to all Prior Loan Contracts, the Borrower shall, commencing on the delivery date hereof, prospectively meet the affirmative and negative covenants as set forth in this Agreement rather than those set forth in the Prior Loan Contracts. In addition, any remaining obligation of RUS to make or approve additional Advances on promissory notes of the Borrower that have been previously delivered to RUS under Prior Loan Contracts shall, after the date hereof, be subject to the conditions set forth in this Agreement. In the event of any conflict between any provision set forth in a Prior Loan Contract and any provision in this Agreement, the requirements as set forth in this Agreement shall apply. Nothing in this section shall, however, eliminate or modify (i) any special condition, special affirmative covenant or special negative covenant, if any, set forth in any Prior Loan Contract or (ii) alter the repayment terms of any promissory notes which the Borrower has delivered under any Prior Loan Contract, except, in either case, as RUS may have specifically agreed to in writing.

**Section 9.16. Authority of Representatives of RUS.**

In the case of any consent, approval or waiver from RUS that is required under this Agreement or any other Loan Document, such consent, approval or waiver must be in writing and signed by an authorized RUS representative to be effective. As used in this section, "authorized RUS representative" means the Administrator of RUS, and also means a person to whom the Administrator has officially delegated specific or general authority to take the action in question.

**Section 9.17. Term.**

This Agreement shall remain in effect until one of the following two events has occurred:

- (a) The Borrower and RUS replace this Agreement with another written agreement; or
- (b) All of the Borrower's obligations under the Prior Loan Contracts and this Agreement have been discharged and paid.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

by \_\_\_\_\_, Board Chairman

(Seal)

Attest:

Secretary



UNITED STATES OF AMERICA

by

Administrator  
of the  
Rural Utilities Service

## RUS LOAN CONTRACT SCHEDULE 1

1. The purpose of this loan is to finance construction of distribution facilities and such other purposes that RUS may agree to in writing in order to carry out the purposes of the Act.
2. The Mortgage shall mean the Restated Mortgage and Security Agreement, dated as of September 1, 2004, among the Borrower, RUS and National Rural Utilities Cooperative Finance Corporation, as it may have been or shall be supplemented, amended, consolidated, or restated from time to time.
3. The governmental authority referred to in Section 2.1(c) is **Not Applicable**.
4. The date of the Borrower's financial information referred to in Section 2.1(h) is September 30, 2006.
5. The principal place of business and mailing address of the Borrower referred to in Section 2.1(i) is 1201 Lexington Road, Nicholasville, Kentucky 40356.
6. All of the property of the Borrower is located in the Counties of Anderson, Bourbon, Bracken, Estill, Fayette, Franklin, Garrard, Grant, Harrison, Henry, Jackson, Jessamine, Madison, Mercer, Nelson, Nicholas, Pendleton, Robertson, Scott, Shelby, Spencer, Woodford and Washington in the Commonwealth of Kentucky.
7. There are no subsidiaries as referred to in Section 2.1(k).
8. The Contemporaneous Loan referred to in Section 5.3 is described as follows:  
  
**None.**
9. The RUS Commitment referred to in the definitions means a loan in the principal amount of \$42,824,000.00, which is being made by RUS to Blue Grass Energy Cooperative Corporation at the Treasury Rate of interest, pursuant to the Rural Electrification Act and RUS Regulations and 7 CFR § 1710.51(a)(1).
10. Amortization of Advance shall be based upon the level debt service method.
11. The SPECIAL condition referred to in Section 4.2 is as follows:  
  
The Treasury Rate loan funds in the amount of \$21,412,000 (half of the entire loan amount) will be placed under conditional agreement until the Borrower has submitted evidence satisfactory to the Administrator that the Kentucky Public Service Commission has approved and the borrower has implemented a retail rate design that demonstrates the Borrower's ability to achieve Coverage Ratios, as defined in the Loan Contract, in calendar year 2008 that are sufficient to permit the Borrower to achieve average Coverage Ratios for the two best years out of the three year period 2006 through 2008 as set forth in Section 5.4(b) of the Loan Contract: a TIER of not less than 1.25, a DSC of not less than 1.25, an OTIER of not less than 1.1, and an ODSC of not less than 1.1.

In the event that these funds are never released, the Borrower will remain in feasible and operable condition.

12. The additional AFFIRMATIVE covenants referred to in Section 5.22 are as follows:

**None.**

13. The additional NEGATIVE covenants referred to in Section 6.16 are as follows:

**None.**

14. The addresses of the parties referred to in Section 9.1. are as follows:

RUS

BORROWER

Rural Utilities Service  
U.S. Department of Agriculture  
Washington, DC 20250-1500  
Attention: Administrator  
Fax: (202) 720-0498

Blue Grass Energy Cooperative Corporation  
1201 Lexington Road  
Nicholasville, Kentucky 40356  
Fax: (859) 885-2854

15. The additional types of contract referred to in Section 6.5(f) are described as follows:

**None.**

16. The organizational identification number of the Borrower referred to in Section 2.1(m) is 0526514.

**EXHIBIT A**

**FORM OF PROMISSORY NOTE**

This Exhibit A of this Loan Contract consists of the following sample document:

- 1 RUS Treasury Rate Promissory Note

RUS Electric Treasury Rate Note  
2 Year Principal Deferral

PROJECT DESIGNATION:

KENTUCKY 64-E44 JESSAMINE

MORTGAGE NOTE

made by

BLUE GRASS ENERGY COOPERATIVE CORPORATION

to

UNITED STATES OF AMERICA

## MORTGAGE NOTE

Nicholasville, Kentucky  
October 1, 2007

1. Amount. BLUE GRASS ENERGY COOPERATIVE CORPORATION (hereinafter called the "Borrower"), a corporation organized and existing under the laws of the Commonwealth of Kentucky, for value received, promises to pay to the order of the UNITED STATES OF AMERICA (hereinafter called the "Government"), acting through the Administrator of the Rural Utilities Service (hereinafter called the "Administrator"), at the United States Treasury, Washington, D.C., at the times and in the manner hereinafter provided, such sums as may be advanced from time to time, not to exceed Forty-two Million Eight Hundred Twenty-four Thousand Dollars and No Cents (\$42,824,000.00), with interest payable from the date of each advance ("Advance") on the unpaid principal balance remaining unpaid from time to time as hereinafter provided.
2. Interest Rate. The Borrower agrees to pay interest on the unpaid principal balance hereunder for each Advance on the dates and at a rate or rates per annum (the "Treasury Interest Rate") determined by the Government for that Advance in accordance with 7 CFR § 1710.51(a)(1), and as may be more particularly described in that certain Loan Contract as hereinafter defined.
3. Fund Advance Period. Funds will be advanced under this Note pursuant to a loan contract dated as of October 1, 2007, between the Borrower and the Government as it may be amended from time to time (the "Loan Contract"). The fund advance period for this Note begins on the date hereof and terminates four (4) years from the date of this note (the "Termination Date"). All funds not advanced prior to the Termination Date shall be automatically rescinded unless the Administrator extends the fund advance period in accordance with 7 CFR § 1714.56.
4. Payment on Advances made within two (2) years. Interest on principal advanced during the first two (2) years from the date hereof pursuant to the Loan Contract and remaining unpaid shall be payable monthly on the last day of each month (the "Monthly Payment Date") beginning on the Monthly Payment Date following the month of each Advance of principal for a period ending on a date two (2) years after the date hereof. The first interest payment on an Advance made during the first two years from the date hereof shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Thereafter, to and including a date thirty-one (31) years after the date hereof (the "Final Maturity Date"), the Borrower shall pay all accrued interest on each Advance on every Monthly Payment Date and shall repay the principal on each such Advance according to the amortization method specified in Paragraph 6 of this Note.
5. Payment on Advances made after two (2) years. For all Advances made two (2) years or more after the date hereof, the Borrower shall pay all accrued interest on the unpaid principal balance of the principal amount advanced pursuant to the Loan Contract two (2) or more years after the date hereof and remaining unpaid and shall repay the principal on each such Advance beginning on the Monthly Payment Date following the month of such Advance in accordance with the amortization method specified in Paragraph 6 of this Note. The first payment on an Advance made two (2) years or more after the date of this Note shall be increased by the amount of interest accruing between the date of the Advance and the first day of the month following the month of the Advance. Payments under this Paragraph 5 shall be in addition to the payments on the Advances made pursuant to Paragraph 4. Regardless of the amortization method selected or anything in this Note to the contrary, all amounts outstanding under this Note remaining unpaid as of the Final Maturity Date shall be due and payable on the Final Maturity Date.
6. Amortization Method. The Borrower has elected the "**level debt service**" amortization method for all of the

Advances under this Note --- during each Interest Rate Term (as defined in 7 CFR § 1710.2) for such Advance, the amount of each monthly payment of principal and interest shall (i) substantially equal the amount of every other monthly payment on such Advance during such Interest Rate Term, and (ii) be in an amount that will pay all principal and interest of such Advance no later than the Final Maturity Date.

7. No Call Provision. The Borrower has no option allowing it to prepay all, or any portion of, the outstanding balance on any Advance thereof except as provided in paragraph 10 of this Note.

8. No Interest Rate Cap. The interest rate on this Note is **NOT** subject to the seven percent (7%) maximum interest rate limitation presently imposed by said Section 305 and its related implementing regulations.

9. Application of Payments. Each payment made on this Note shall be applied first to the payment of interest on principal and then on account of principal. Any principal hereof advanced pursuant to the Loan Contract remaining unpaid, and interest thereon, shall become due and payable on the Final Maturity Date.

10. Prepayment. All, or a portion of the outstanding balance on any Advance may be prepaid on any Rollover Maturity Date (as defined in 7 CFR § 1710.2) pursuant to 7 CFR § 1714.6(a)(4). Such balance may also be prepaid pursuant to Section 306B of the Rural Electrification Act of 1936.

11. Security. This Note has been executed and delivered pursuant to and is secured by a certain mortgage and security agreement, dated as of September 1, 2004, made by and among the Borrower, the Government and National Rural Utilities Cooperative Finance Corporation, as the same may have been amended or supplemented by any supplemental mortgage and security agreement or supplemental mortgages and security agreements (said mortgage and security agreement and any such supplemental mortgage(s) and security agreement(s) being hereinafter collectively called the "Mortgage"), and is one of several notes (the "Notes") permitted to be executed and delivered by the Borrower pursuant to the Mortgage. The Mortgage provides that all Notes shall be equally and ratably secured thereby and reference is hereby made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security and the rights of the holders of Notes with respect thereto.

12. Default. In case of default by the Borrower, as provided in the Mortgage, all principal advanced pursuant to the Loan Contract and remaining unpaid on this Note and any other Notes at the time outstanding, and all interest thereon, may be declared or may become due and payable in the manner and with the effect provided in the Mortgage.

13. Noteholder. This Note evidences indebtedness created by a loan made by the Government under the NOFA and the Rural Electrification Act of 1936, as amended. If the Government shall at any time assign this Note and insure the payment hereof, the Borrower shall continue to make payments hereunder to the Government as collection agent for the insured holder, and, for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

14. Additional Notes. If the Government, at any time prior to the advance of the entire principal amount hereof on account of this Note, shall make a written endorsement hereon stating the amount advanced on account of the principal hereof, and shall notify the Borrower, in writing, of such endorsement, then the principal amount of this Note shall be deemed to be and shall become reduced to the amount specified in such endorsement, and the Borrower shall then execute and deliver to the Government one or more additional notes, in an amount or amounts

designated by the Government which in the aggregate shall be equal to the then unadvanced portion of the original principal amount of this Note, such additional notes to be dated the date of execution, to be in substantially the same form, and to bear the same interest rate, as this Note. The Borrower, upon the request therefor in writing by the Government, shall execute and deliver to the Government two or more notes, in substitution for this Note, in substantially the same form and bearing the same interest rate and date (except that any such substitute note which will evidence only an unadvanced portion of this Note may, at the discretion of the Government, be dated the date of execution), in an aggregate principal amount which shall be equal to the principal amount of this Note, but in such individual principal amounts as the Government shall request; provided that (i) all payments which shall have been made on account of the principal of and interest on this Note shall be credited on account of such substitute notes and (ii) the Government shall return this Note to the Borrower upon receipt and acceptance of such substitute notes.

15. References to Regulations or Notices. References in this Note to specific Government regulations or notices will apply to corresponding provisions in future versions of such regulations and notices.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate name and its corporate seal to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

BLUE GRASS ENERGY COOPERATIVE CORPORATION

SAMPLE - NOT FOR EXECUTION

by \_\_\_\_\_, Board Chairman

(Seal)

Attest:

Secretary



## EXHIBIT B

### EQUAL OPPORTUNITY CONTRACT PROVISIONS

During the performance of this contract, the contractor agrees as follows:

- (a) The contractor shall not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The contractor shall take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The contractor agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided setting forth the provisions of this nondiscrimination clause.
- (b) The contractor shall, in all solicitations or advertisements for employees placed by or on behalf of the contractor, state that all qualified applicants shall receive consideration for employment without regard to race, color, religion, sex or national origin.
- (c) The contractor shall send to each labor union or representative of workers with which he has a collective bargaining agreement or other contract or understanding, a notice to be provided advising the said labor union or workers' representative of the contractor's commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.
- (d) The contractor shall comply with all provisions of Executive Order 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.
- (e) The contractor shall furnish all information and reports required by Executive Order 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and shall permit access to his books, records and accounts by the administering agency and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.
- (f) In the event of the contractor's noncompliance with the non-discrimination clauses of this contract or with any of the said rules, regulations or orders, this contract may be canceled, terminated or suspended in whole or in part and the contractor may be declared ineligible for further Government contracts or federally assisted construction contracts in accordance with procedures authorized in Executive Order 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in said Executive Order or by rule, regulation or order of the Secretary of Labor, or as otherwise provided by law.
- (g) The contractor shall include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations or orders of the Secretary of Labor issued pursuant to section 204 of Executive Order 11246, dated September 24, 1965, so that such provisions shall be binding upon each subcontractor or vendor. The contractor shall take such action with respect to any subcontract or purchase order as the administering agency may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event a contractor becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by the agency, the contractor may request the United States to enter into such litigation to protect the interests of the United States.

EXHIBIT C-1

MANAGER'S CERTIFICATE REQUIRED UNDER LOAN  
CONTRACT SECTION 6.14 FOR ADDITIONAL NOTES

On behalf of \_\_\_\_\_  
Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under Section 2.01 of the Mortgage on or about \_\_\_\_\_ meet all of the requirements of

\_\_\_\_\_ Date Note or Notes are to be Signed  
Section 6.14 of the Loan Contract, namely:

- (a) The weighted average life of the loan evidenced by such Notes ( \_\_\_\_\_ years) does not exceed the weighted average of the expected remaining useful lives of the assets being financed ( \_\_\_\_\_ years) as evidenced by the attached calculation of said weighted average lives.
- (b) The principal of the loan evidenced by such Notes shall either be [check one and provide evidence in the second case:
  - (1) repaid based on level payments of principal and interest throughout the life of the loan, or
  - (2) amortized at a rate that shall yield a weighted average life that is not greater than the weighted average life that would result from level payments of principal and interest throughout the life of the loan as evidenced by the attached analysis of said weighted average lives.
- (c) The principal of the loan evidenced by such Notes has a maturity of not less than 5 years.

SAMPLE - NOT FOR EXECUTION

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

Name and Address of Borrower:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT C-2**

**MANAGER'S CERTIFICATE REQUIRED UNDER LOAN CONTRACT  
SECTION 6.14 FOR REFINANCING NOTES**

On behalf of \_\_\_\_\_

Name of Borrower

I hereby certify that the Additional Note or Notes to be issued under Section 2.02 of the Mortgage on or about \_\_\_\_\_ meet the requirement of Section 6.14

Date Note or Notes are to be Signed

of the Loan Contract that the weighted average life of such Notes is not greater than the weighted average remaining life of the Notes being refinanced, as evidenced by the attached calculation of said weighted average lives.

SAMPLE - NOT FOR EXECUTION

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

Name and Address of Borrower:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

D

EXHIBIT

PART A. STATEMENT OF OPERATIONS

LINE NO	YEAR TO DATE		BUDGET C	THIS MONTH D	% FROM BUDGET	% CHANGE FROM LAST YEAR
	LAST YEAR A	THIS YEAR B				
1.0	81,285,220.04	90,888,657.44	85,584,441.00	6,998,719.73	6.2	11.8
2.0	60,054,431.00	69,650,255.00	62,927,569.00	5,726,046.00	0.0	0.0
3.0	2,150,610.51	2,427,067.18	2,416,411.00	217,091.03	0.0	0.0
4.0	3,395,626.57	4,096,302.20	4,178,311.00	405,879.38	4.0	12.9
5.0	2,313,871.28	2,178,200.75	2,235,750.00	201,322.07	2.0	20.6
6.0	883,890.43	1,041,230.44	1,067,165.00	89,596.86	2.4	17.8
7.0	3,706,478.57	3,858,972.61	3,758,961.00	404,426.60	0.0	4.1
8.0	72,504,908.36	83,252,028.18	76,584,167.00	7,044,361.94	8.7	14.8
9.0	4,614,875.17	5,155,582.26	5,085,000.00	494,185.75	1.4	11.7
10.0	2,430.03	3,385.49	3,850.00	0.00	0.0	0.0
11.0	4,002,250.29	4,457,180.82	4,636,000.00	401,880.67	12.1	39.3
12.0	134,870.85	495,183.31	110,000.00	63,049.52	3.9	11.4
13.0	20,013.81	2,221,306.67	298,750.00	0.00	0.0	0.0
14.0	81,279,348.51	95,584,666.73	86,717,767.00	8,003,477.86	350.2	267.2
15.0	5,871.53	4,696,009.29	1,133,326.00	1,004,758.15	643.5	998.9
16.0	108,169.95	79,236.78	122,400.00	354.28	10.2	17.6
17.0	0.00	0.00	0.00	0.00	314.4	79.3
18.0	433,678.54	338,605.49	0.00	2,739.45	35.3	26.7
19.0	414,328.40	294,591.16	255,000.00	0.00	0.0	0.0
20.0	962,048.42	3,983,575.86	755,926.00	1,007,143.32	0.0	0.0
21.0	1.240	.106	.837	1.506	0.0	0.0
22.0	.012	.044	.009	.144	0.0	0.0
23.0	.739	.766	.735	.818	0.0	0.0
24.0	.049	.049	.054	.057	0.0	0.0
25.0	.3358				15.5	28.9
26.0	.2476				427.0	514.1
27.0	.5598					
28.0	.4853					
29.0	.2641					

RATIOS

TIER MARGINS TO REVENUE	1.240	.106	.837	1.506
POWER COST TO REVENUE	.012	.044	.009	.144
INTEREST EXPENSE TO REVENUE	.739	.766	.735	.818
CURRENT ASSETS : CURRENT LIABILITIES	.049	.049	.054	.057
MARGINS & EQUITIES AS % OF ASSETS	.3358			
LONG TERM DEBT AS % OF PLANT	.2476			
GENERAL FUNDS TO TOTAL PLANT	.5598			
QUICK ASSET RATIO	.4853			
	.2641			

PART C. BALANCE SHEET

LINE NO	ASSETS AND OTHER DEBITS	LIABILITIES AND OTHER CREDITS
1.0	TOTAL UTILITY PLANT IN SERVICE 172,116,899.01	29.0 MEMBERSHIPS 1,019,705.30-
2.0	CONSTRUCTION WORK IN PROGRESS 7,197,883.18	30.0 PATRONAGE CAPITAL 41,505,706.92-
3.0	TOTAL UTILITY PLANT 179,314,782.19	31.0 OPERATING MARGINS - PRIOR YEAR 96,485.32-
4.0	ACCUM PROV FOR DEP & AMORT 38,759,826.41-	32.0 OPERATING MARGINS-CURRENT YEAR 3,983,575.86
5.0	NET UTILITY PLANT 140,554,955.78	33.0 NON-OPERATING MARGINS 62,513.47-
6.0	NON-UTILITY PROPERTY (NET) .00	34.0 OTHER MARGINS & EQUITIES 3,216,531.30-
7.0	INVEST IN SUBSIDIARY COMPANIES .00	35.0 TOTAL MARGINS & EQUITIES 41,917,366.45-
8.0	INV IN ASSOC ORG - PAT CAPITAL 19,135,674.04	36.0 LONG TERM DEBT - RUS (NET) 40,988,419.17-
9.0	INV IN ASSOC ORG OTHER GEN FND .00	(PAYMENTS-UNAPPLIED .00 )
10.0	INV IN ASSOC ORG - NON GEN FND 2,299,462.61	37.0 LNG-TERM DEBT-RUS-ECON DEV NET .00
11.0	INV IN ECON DEVEL PROJECTS .00	38.0 LNG-TERM DEBT-FFB-RUS GUAR 35,010,291.04-
12.0	OTHER INVESTMENTS .00	39.0 LONG-TERM DEBT OTHER-RUS GUAR .00
13.0	SPECIAL FUNDS .00	40.0 LONG TERM DEBT - OTHER (NET) 24,384,102.75-
14.0	TOT OTHER PROP & INVESTMENTS 870,293.66	41.0 TOTAL LONG TERM DEBT 100,382,812.96-
15.0	CASH - GENERAL FUNDS .00	42.0 OBLIGATION UNDER CAPITAL LEASE .00
16.0	CASH - CONSTRUCTION FUND TRUST .00	43.0 ACCUM OPERATING PROVISIONS 5,390,539.51-
17.0	SPECIAL DEPOSITS .00	44.0 TOTAL OTHER NONCURR LIABILITY 5,390,539.51-
18.0	TEMPORARY INVESTMENTS .00	45.0 NOTES PAYABLE 10,450,000.00-
19.0	NOTES RECEIVABLE (NET) .00	46.0 ACCOUNTS PAYABLE 7,659,690.63-
20.0	ACCTS REC - SALES ENERGY (NET) 3,164,235.69	47.0 CONSUMER DEPOSITS 1,414,843.81-
21.0	ACCTS REC - OTHER (NET) 981,739.87	48.0 CURR MATURITIES LONG-TERM DEBT .00
22.0	MATERIAL & SUPPLIES-ELEC & OTH 1,495,879.08	49.0 CURR MATURIT LT DEBT ECON DEV .00
23.0	PREPAYMENTS 490,683.42	50.0 CURR MATURITIES CAPITAL LEASES .00
24.0	OTHER CURRENT & ACCR ASSETS .00	51.0 OTHER CURRENT & ACCRUED LIAB 1,328,010.88-
25.0	TOTAL CURRENT & ACCR ASSETS 7,002,831.72	52.0 TOTAL CURRENT & ACCRUED LIAB 20,852,545.32-
26.0	REGULATORY ASSETS .00	53.0 REGULATORY LIABILITIES 312,161.26
27.0	OTHER DEFERRED DEBITS .00	54.0 OTHER DEFERRED CREDITS 761,821.17-
28.0	TOTAL ASSETS & OTHER DEBITS 169,305,085.41	55.0 TOTAL LIABILITIES & OTH CREDIT 169,305,085.41-
=====		
ESTIMATED CONTRIBUTIONS IN AID OF CONSTRUCTION		
	56.0 BALANCE BEGINNING OF YEAR .00	
	57.0 AMOUNT RECEIVED THIS YEAR (NET) 534,496.54	
	58.0 TOTAL CONTRIBUTIONS IN AID OF CONST 534,496.54	
=====		

C E R T I F I C A T I O N

WE HEREBY CERTIFY THAT THE ENTRIES IN THIS REPORT ARE IN ACCORDANCE WITH THE ACCOUNTS AND OTHER RECORDS OF THE SYSTEM AND REFLECT THE STATUS OF THE SYSTEM TO THE BEST OF OUR KNOWLEDGE AND BELIEF. ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, REA, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

\_\_\_\_\_  
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

\_\_\_\_\_  
DATE

\_\_\_\_\_  
SIGNATURE OF MANAGER

\_\_\_\_\_  
DATE

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BLUE GRASS ENERGY  
)  
COOPERATIVE CORPORATION FOR AN ORDER  
)  
AND CERTIFICATION OF PUBLIC CONVENIENCE  
)  
AND NECESSITY AUTHORIZING APPLICANT  
)  
(1) TO EXECUTE RESTATED MORTGAGE AND  
)  
SECURITY AGREEMENT DATED SEPTEMBER 1,  
)  
2004 WITH NATIONAL RURAL UTILITIES  
)  
COOPERATIVE FINANCE CORPORATION AND  
)  
UNITED STATES OF AMERICA (RURAL UTILITIES  
)  
SERVICE) PURSUANT TO KRS 278.300  
)  
AND (2) TO EXCLUDE FROM PSC JURISDICTION  
)  
THE RUS LOAN CONTRACT AND MORTGAGE  
)  
NOTE WITH UNITED STATES OF AMERICA  
)  
(RURAL UTILITIES SERVICE) PURSUANT TO  
)  
KRS 278.300(10)

CASE NO.  
2004-00371

ORDER

On September 21, 2004, Blue Grass Energy Cooperative Corporation ("Blue Grass") filed an application for approval of a "Restated Mortgage and Security Agreement" ("Restated Mortgage") dated September 1, 2004 in favor of the Rural Utilities Service ("RUS") and the National Rural Utilities Cooperative Finance Corporation ("CFC"). Blue Grass also requested that the Commission find, pursuant to KRS 278.300(10), that a proposed loan from RUS to Blue Grass in the amount of \$29,281,000 is exempt from Commission approval. The proceeds from the proposed

RUS loan will be used to finance Blue Grass's 2004-2005 Work Plan,<sup>1</sup> which was

approved by the Commission today.

Blue Grass stated that it was not requesting approval of the mortgage note and loan contract with RUS because RUS is an agency of the federal government with supervisory authority over evidences of indebtedness. Pursuant to KRS 278.300(10), any evidences of indebtedness that are subject to the supervisory authority of a federal agency are exempt from Commission approval. Blue Grass further stated that it was requesting approval of the Restated Mortgage because CFC is a party to that document. CFC is neither controlled by, nor an agency of, the federal government and, consequently, the exemption set forth in KRS 278.300(10) is not applicable to CFC.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. RUS is an agency of the federal government with supervisory authority over evidences of indebtedness and, under KRS 278.300(10), the mortgage note and loan contract with RUS is exempt from Commission approval.

2. The Restated Mortgage reflects existing debt Blue Grass owes CFC that was previously approved by the Commission and does not involve the issuance of new CFC debt to Blue Grass.

3. The Restated Mortgage in favor of RUS and CFC is for a lawful object within the corporate purposes of Blue Grass, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not

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<sup>1</sup> Case No. 2004-00251, Application of Blue Grass Energy Cooperative Corporation for a Certificate of Convenience and Necessity for its 2004-2005 Construction Work Plan, final Order dated November 15, 2004.

impair its ability to perform that service, is reasonable, necessary, and appropriate for

such purposes, and should be approved.

IT IS THEREFORE ORDERED that Blue Grass is authorized to execute the

Restated Mortgage in favor of RUS and CFC in accordance with the terms and

conditions described in Blue Grass's application.

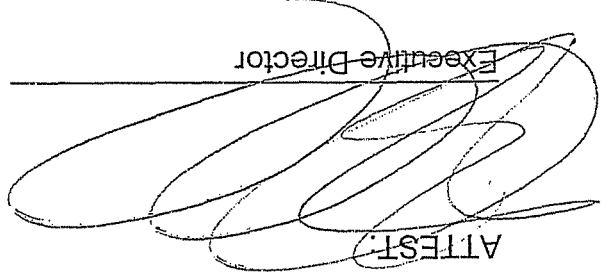
Nothing contained herein shall be deemed a warranty or finding of value of

securities or financing authorized herein on the part of the Commonwealth of Kentucky

or any agency thereof.

Done at Frankfort, Kentucky, this 15th day of November, 2004.

By the Commission

ATTEST  
  
Executive Director