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February 18, 2009

RECEIVED

FEB 18 2009

**PUBLIC SERVICE
COMMISSION**

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

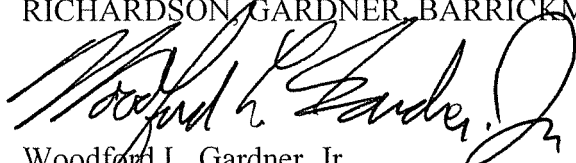
Re: Application of Farmers Rural Electric for an Adjustment of Rates
Case No. 2008-00030

Dear Mr. Derouen:

Please find enclosed the original and eight (8) copies of the responses to the Commission's Order "Second Data Request of Commission Staff to Farmers Rural Electric Cooperative Corporation" dated February 4, 2009.

Please contact me at (270) 651-8884 or William T. Prather at (270) 651-2191 with any questions regarding this filing.

Respectfully submitted,
RICHARDSON, GARDNER, BARRICKMAN & ALEXANDER



Woodford L. Gardner, Jr.
Counsel for Farmers Rural Electric Cooperative

Enclosure

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

FEB 18 2009

PUBLIC SERVICE
COMMISSION

In the Matter of adjustment of Rates

Of Farmers Rural Electric Cooperative

Corporation

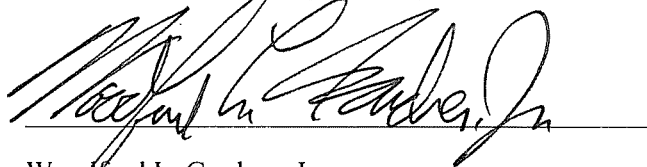
Case No. 2008-00030

APPLICANT'S RESPONSES TO

SECOND DATA REQUEST OF COMMISSION STAFF

The applicant, Farmers Rural Electric Cooperative Corporation, makes the following responses to the "Second Data Request of Commission Staff", as follows:

1. The witnesses who are prepared to answer questions concerning each request are William T. Prather, Alan Zumstein, and Jim Adkins.
2. William T. Prather, President and CEO of Farmers Rural Electric Cooperative Corporation is the person supervising the preparation of the responses on behalf of the applicant.
3. The responses and Exhibits are attached hereto and incorporated by reference herein.



Woodford L. Gardner, Jr.
Richardson, Gardner, Barrickman & Alexander
Attorneys-At-Law
117 E. Washington Street
Glasgow, Kentucky 42141
Attorney for Farmers Rural Electric Cooperative
Telephone: 270-651-8884

The undersigned, William T. Prather, as President & CEO of Farmers Rural Electric Cooperative Corporation, being duly sworn, states that the responses herein are true and accurate to the best of my knowledge and belief formed after reasonable inquiry.

Dated: February 18, 2009

FARMERS RURAL ELECTRIC COOPERATIVE

By: William T. Prather

WILLIAM T. PRATHER, PRESIDENT & CEO

Subscribed, sworn to, and acknowledged before me by William T. Prather, as President & CEO for Farmers Rural Electric Cooperative Corporation on behalf of said Corporation the 18th day of February, 2009.

Linda Sue Foushee

Notary Public, Kentucky State At Large

My Commission Expires: 7-30-2011

CERTIFICATE OF SERVICE

The undersigned counsel certifies that the foregoing responses have been served upon the following:

Original and Eight Copies

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Copy

Hon. Lawrence W. Cook
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601

This 18th day of February, 2009

[Signature]

ATTORNEY FOR

FARMERS RURAL ELECTRIC COOPERATIVE

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

1. Refer to Farmers' Application at Exhibit J. Provide an electronic version with all formulas intact and unprotected.

Response

CD attached.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer t the Jim Adkins' testimony and Farmers' Application at Exhibit R.
Provide an electronic copy of the cost of service study with formulas intact and
unprotected.

Response:

Attached is a CD-RW which contains the cost of service study in electronic form
with the formulas intact and unprotected. .

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO COMMISSIONS STAFF'S SECOND DATA REQUEST

Question:

Refer to Jim Adkins' testimony and Farmers' Application at Exhibit R. Provide an a step by step detailed explanation of any differences in the methodology used in this cost of service study and the methodology used in other recent rate cases filed by East Kentucky Power Cooperative distribution cooperatives.

Response:

The general methodology followed in the cost-of-service study ("COSS") presented in this application is consistent with similar studies provided for East Kentucky Power Cooperative ("EKPC") distribution cooperatives. However, some changes has been made in an attempt to simplify the completion of the study and to enhance the ability to read, comprehend and understand the COSS in hard copy as well as in electronic form. The changes mentioned above consist primarily of the following ones.

One, the order of the COSS has been changed with the current one presented in chronological order. The previous version the COSS had the end results in the front of the document and followed a reverse pattern.

Two, the previous COSS version combined the functionalization and classifications steps into one schedule and attempted to provide functionally, unbundled information. As an example, the distribution demand related line revenue requirement for any rate class could be broken down into the following categories:

1. operations and maintenance expenses
2. administrative and general expenses
3. depreciation and miscellaneous expenses
4. interest expenses
5. margins
6. revenue credits

The current version does not provide information to that level although the same information could be provided if desired.

Third, the COSS version provided in this application provides the supporting schedules, allocation bases and documentation as an integral part of the schedules. The previous COSS version provided the supporting schedules and documentation at the end of the study.

Fourth, the rate of return on rate base for each class is not readily calculated or available in the new COSS. This information may be nice to know but it is not utilized in the determination of revenue requirements. The times interest earned ratio ("TIER") is the basis for margin requirements for distribution cooperatives that this consultant works with.

Fifth, the allocation of non-electric rate revenue in this COSS version is a little different that the allocations bases in the previous COSS version. This allocation in this COSS is proportional to the rate classes based on revenue from rates. Non-electric rate revenue includes revenues from non-recurring charges, revenue for CATV attachments, penalties, interest income, capital credits assigned and others. This allocation provides for the most favorable treatment for the residential consumers.

Some other small differences may exist between the current COSS version and the previous version but they are most probably very minor in fact. The rationale for developing this change in the COSS model is the expected need for a simpler COSS model to utilize for and by members systems when the Kentucky Public Service Commission ("Commission") issues a final order in EKPC's application in Case No. 2008-00409. The need increases and is even more critical if the Commission approves the rate design and approach behind the Phase II wholesale rates requested by EKPC in this same rate application.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Farmers' Application at Exhibit B of the application, P.S.C. Ky. No. 9, Revised Sheet No. 1, Schedule R – Residential Service. Explain why the Terms of Payment section of this and other rate classes is being changed to eliminate the \$5.00 maximum on the unpaid amount and the spread between net and gross rates is proposed to change from 10 percent to 5 percent. Include in the explanation upon total revenue of these changes across all affected classes.

Response:

The proposal eliminates the \$5.00 maximum for the very reason that a \$5.00 charge today is not a deterrent nor does it encourage a customer to pay their bill on time. For the commercial and industrial customers, the \$5.00 maximum encourages them to pay their bill late. It would not be a prudent business decision for the commercial and industrial customers to pay on time. The change from 10 percent to 5 percent seems to be reasonable and will not be an onerous penalty for the residential customers but should serve as an inducement to the commercial and industrial customers to pay on time.

The impact upon forfeited discounts for the test using the proposed changes would have resulted in a credit of \$382,598. The actual test year amount was \$228,394. This difference of \$154,204 would never be realized by Farmers because it is expected that the commercial and industrial customers would pay their bill on time with a penalty charge of 5 percent of the bill instead of the current amount of \$5.00.

Farmers made no adjustments to its revenues in this case for this penalty payment change because it feels that the amount will remain about the same and that amount calculated above will not be realized because the commercial and industrial customers will pay on time in the future.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Refer to Farmers' Application at Exhibit B of the application, P.S.C. Ky. No. 9, 18th Revised Sheet No. 4, Schedule C – Commercial and Industrial Service.

Question:

a. Explain why the requirement for the power factor at the time of maximum demand is being changed from 85 percent to 90 percent.

Response

The power factor at time of maximum demand is being increased from 85 percent to 90 percent so that it is the same percentage as the power factor of East Kentucky Power Cooperative ("EKPC"). Farmers will pay a power factor penalty when its power factor at any of EKPC's substations that provide service to Farmers is less than 90 percent at time of maximum demand. It is Farmers desire to provide a reasonable incentive to its larger commercial and industrial consumers to maintain as high a power factor as practicable.

Question:

b. Explain why the minimum monthly charge for three phase service is being amended to include a provision for a \$50.00 charge. Include in the explanation how Farmers will determine whether the minimum charge will be \$0.75 per KVA of installed transformer capacity, \$50.00, or the minimum monthly stated in the service contract.

Response:

Farmers has implemented a customer charge for this rate class in order to better match rate design with the costs to serve. The customer charge concept will better illustrate to the retail consumer that the cooperative does incur some costs to connect the customer to the distribution grid or provide him the ability to use electric power. Additionally, Farmers has proposed a customer charge for all current rate classes as a part of this application.

In response to how Farmers will determine the minimum charge, the minimum charge will be the largest dollar amount of the three factors listed.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Farmers' Application at Exhibit B of the application, P.S.C. Ky. No. 9 Original Sheet 6F. Explain why Farmers proposes to increase the public liability insurance requirement of CATV operators. Include in the explanation whether Farmers is aware of other cooperatives that have increased the liability insurance required. Give specific examples if available.

Response:

The current public liability insurance requirement was established in 1982 when the CATV tariffs were last approved for Farmers. Due to inflation and the increases in potential claims, Farmers' management feels that it is prudent management to increase the public liability insurance requirement to an amount more in line with today's insurance environment.

The Commission approved equivalent CATV insurance requirements for Clark Energy Cooperative. Please refer to Clark Energy's Commission approved Rules and Regulations Sheet No. 115, approved 3/3/2008.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

7. Refer to Farmers' Application at Exhibit 13 of the application, page 2. Explain whether the average embedded cost of \$196.00 for a Two-Party pole and \$277.29 for a Three-Party pole are gross costs or if the costs reflect depreciation.

Response

The embedded costs are shown as gross costs, not net of depreciation.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Farmers' Application at Exhibit B and Exhibit C. Exhibit B is a copy of Farmers existing tariff on file with the Commission showing proposed changes in this case. Exhibit shows a clean copy of Farmers proposed tariff. The last eight tariff sheets of Exhibit B do not appear in Exhibit C. State whether Farmers is requesting that these eight pages be cancelled by the Commission with the approval of the new tariff or whether it is Farmers' intention that these eight tariff pages remain in effect after approval of the new tariff.

Response:

Farmers is requesting that these eight tariff pages be removed or ignored as they were submitted by mistake. These tariff sheets have been superseded by new cogeneration and small power production tariffs submitted to and approved by this Commission.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Question:

Refer to Farmers' Application at Exhibits B and C. In reviewing these exhibits, it is apparent that Farmers is requesting to reduce its late payment penalty from 10 percent to 5 percent. State why this reduction in the late payment penalty was not included in the copy of the customer notice as provided in the Application at Exhibit D.

Response:

The reduction in the payment penalty from 10 percent to 5 percent was not included in the copy of the customer notice because it was left out in error when the customer notice was prepared. This mistake was due to an oversight by Farmers.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

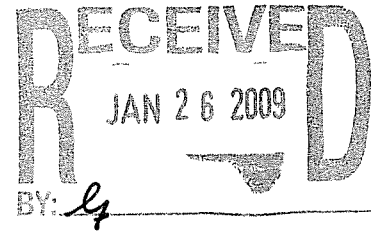
10. Refer to Farmers' Application at Exhibit H-1, page 2. Reference is made to mortgage agreements with Rural Utilities Service ("RUS") and the National Rural Utilities Cooperative Finance Corporation ("CFC"). Provide a complete copy of the mortgage agreements for the most recent loan with RUS and the most recent loan with CFC that requires a net TIER of 1.25 and an operating TIER of 1.1.

Response

A copy of the most current mortgage agreement is attached.



United States Department of Agriculture
Rural Development



JAN 22 2009

Mr. William T. Prather
President & CEO
Farmers Rural Electric Cooperative
Corporation
P.O. Box 1298
Glasgow, Kentucky 42142-1298

Dear Mr. Prather:

We are pleased to advise you that the Rural Development Utilities Programs has received the necessary legal clearances related to the "AR8" guaranteed loan, in the amount of \$17,402,000. We have also received the information required to remove the condition placed on the advance of the first half (\$8,701,000) of the "AR8" guaranteed loan. Therefore, loan funds may now be requisitioned in accordance with RUS' budgetary control and advance of funds procedures. A Form of Advance Request is enclosed for your convenience and the FFB Note Identifier is: **FARMERSA 0003.**

Bulletin 1710B-2, *Guide to Federal Financing Bank Loans Guaranteed by RUS*, is available on the RUS Home Page for additional information. If you should have any questions, please let us know.

Sincerely,

BRIAN D. JENKINS
Chief, Operations Branch
Northern Regional Division
Electric Programs

Enclosures

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

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination, write USDA, Director, Office of Civil Rights,
1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (800) 795-3272 (Voice) or (202) 720-6382 (TDD).

RUS Project Designation:
KENTUCKY 34-AR8 BARREN

RUS LOAN CONTRACT

An Agreement Made By And Between
FARMERS RURAL ELECTRIC COOPERATIVE CORPORATION,
as Borrower
and
UNITED STATES OF AMERICA,
as Lender

Dated as of September 2, 2008

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

RUS LOAN CONTRACT

AGREEMENT, dated as of September 2, 2008, between FARMERS RURAL ELECTRIC 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.

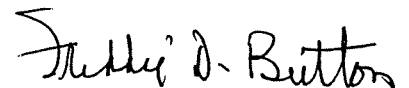
IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

FARMERS RURAL ELECTRIC COOPERATIVE
CORPORATION

by

, Chairman

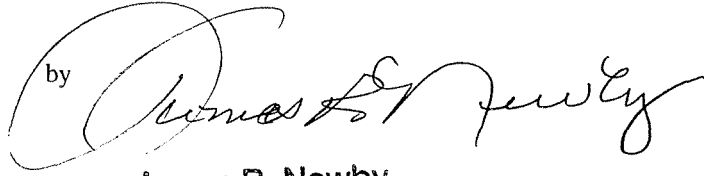
(Seal)



Attest:

Secretary


UNITED STATES OF AMERICA

by 

James R. Newby

Assistant Administrator
Electric Program
of the
Rural Utilities Service

RUS LOAN CONTRACT SCHEDULE 1

1. The purpose of this loan is to finance construction of distribution facilities, GIS 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 May 1, 2003, 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 March 31, 2007.
5. The principal place of business and mailing address of the Borrower referred to in Section 2.1(i) is 504 South Broadway, Glasgow, Kentucky 42141.
6. All of the property of the Borrower is located in the Counties of Adair, Barren, Edmonson, Grayson, Green, Hart, Larue and Metcalfe in the Commonwealth of Kentucky.
7. The subsidiary referred to in Section 2.1(k) is Farmers Energy Services Corporation.
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 \$17,402,000.00, which is being made to Farmers Rural Electric Cooperative Corporation by the Federal Financing Bank (FFB) and guaranteed as to payment by RUS, pursuant to the Rural Electrification Act and RUS Regulations.
10. Amortization of Advance shall be based upon the method for the repayment of principal for an Advance selected for such Advance, in accordance with that certain note, dated as of even date herewith, evidencing the RUS-guaranteed FFB loan.
11. The SPECIAL conditions referred to in Section 4.2 are as follows:
 - (a) The Borrower has duly authorized, executed, and has delivered to the Administrator of RUS, the note (the "FFB Note"), dated September 2, 2008, evidencing the loan made by FFB to the Borrower, within ninety (90) days of the date of the certain designation notice committing FFB to purchase the FFB Note (the "Designation Notice"), in the manner prescribed in the Designation Notice and has satisfied all the conditions set forth in the Designation Notice.
 - (b) It is recommended that the entire "AR8" loan guarantee commitment in the amount of \$17,402,000 made to Farmers Rural Electric Cooperative Corporation (the Borrower) be placed and held under conditional agreement until the following conditions have satisfied:

1. The Rural Utilities Service (RUS) has entered into a contract of guarantee with the Borrower, and the Federal Financing Bank (FFB) has agreed, with RUS approval, to make the Borrower a guaranteed loan of \$17,402,000 to finance certain distribution and GIS facilities in the "AR8" loan;

2. The Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that the conditions in the contract of guarantee have been satisfied to the extent and in the manner prescribed by the Administrator;
3. The Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that it has duly authorized, executed, and has delivered to the Administrator the FFB Note and the Reimbursement Note in manner prescribed by the Administrator;
4. The Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that it has duly authorized, executed, delivered, recorded, and filed a supplemental mortgage or other security instrument, which is in form and substance satisfactory to the Administrator.

In addition to the standard loan agreement conditions, it is recommended that the entire "AR8" loan guarantee commitment be placed and held under conditional agreement until the Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that it has filed an application for a rate increase with the Kentucky Public Service Commission (KPSC) in amount sufficient that when placed into effect permits the Borrower to achieve 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 (as "TIER", "DSC", "OTIER", and "ODSC" are defined in the loan documents, except that, for the purposes of this paragraph, TIER, DSC, OTIER, and ODSC shall mean the ratio solely with respect to a calendar year). Upon satisfaction of this condition, \$8,701,000 of the "AR8" loan guarantee may be released from conditional agreement.

It is further recommended that the remaining \$8,701,000 of the "AR8" loan guarantee commitment continue to be held under conditional agreement until the Borrower has submitted evidence, in form and substance satisfactory to the Administrator, that the KPSC has approved and the Borrower has implemented a retail rate design that demonstrates the Borrower's ability to achieve 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, for calendar year 2009, (as "TIER", "DSC", "OTIER", and "ODSC" are defined in the loan documents, except that, for the purposes of this paragraph, TIER, DSC, OTIER, and ODSC shall mean the ratio solely with respect to such calendar year).

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

It is estimated that these conditions will be satisfied within 12 months from the approval of this loan.

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

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

BORROWER

Farmers Rural Electric Cooperative Corporation
504 South Broadway
Glasgow, Kentucky 42141
Fax: (270) 651-7332

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 0016961.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

11. Refer to Farmers' Application at Exhibit H-1. In response to question 13 on page 3, the witness states that "In order to continue to meet debt service obligations, operating costs and maintain the minimum joint mortgage agreement requirements, it was necessary to request a TIER of 2.0 in this Application." Explain specifically why a 2.0 TIER is required to meet the stated objectives when, on page 2, the witness states that the mortgage agreements require only a 1.25 TIER.

Response

A TIER of 2.0x will allow Farmers to increase its margins, which will result in an increase in equity. This will allow Farmers to meet its mortgage requirement for TIER and DSC, and hopefully, allow it to continue to return capital credits to its members.

The mortgage requirement is for a minimum TIER requirement. Granting an increase of 1.25 would have Farmers continuing to be on the verge of not meeting its TIER requirements, and thus cause Farmers to file frequent rate applications for years that vary due to weather, load useage, and normal increases due to operating costs. A TIER of 1.25 would only generate margins in the amount of \$508,120. This would not allow Farmers to continue to pay capital credits. As reflected in Exhibit 20 of the application, you can see that Farmers has a history of paying capital credits to its members.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

12. Refer to Farmers' Application at Exhibit N, page 9. In footnote 1, under the heading "Utility Plant," the statement is made that Farmers "Utility Plant is stated substantially at original cost."

- a. Explain why the term "substantially" is used in this statement.
- b. Identify all assets individually that were not recorded at original cost by Farmers and explain why they were not recorded at original cost.

Response

12.a.
Per discussions with the auditors, this is for terminology purposes only.

12.b.
To the best of knowledge of Farmers personnel and its auditors, all assets are recorded at original cost.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

13. Refer to Farmers' Application at Exhibit Y.

a. Provide a worksheet that lists the accounts shown at Exhibit Y. On this worksheet, provide the monthly balances of all balance sheet accounts at the end of each month of the test year. For income statement accounts, provide the total amount charged to each account during each month of the test year. The sum of the monthly charges to the income statement accounts shown on this worksheet should total the test year balances shown in Exhibit Y.

b. Provide a worksheet that lists the accounts shown at Exhibit Y. For each account, provide the test year account balance for each account. Also, for each account, provide the account balances for the years ended 2007, 2006, 2005, 2004 and 2003.

c. Provide the amount of salaries and wages expense included in the test year expense for each income statement account.

Response

13.a.

The month end balance for each balance sheet account is reflected in Exhibit W of the application. The monthly activity for each income statement account is reflected in Exhibit X of the application.

13.b.

Exhibit Y of the application reflects the test year end balances for balance sheet accounts and also for income statement accounts. A "Summarized Trial Balance" is attached for each year from 2007, 2006, 2005, 2004, and 2003, with account balances, are attached.

13.c.

The salaries and wages expense included in the test year expense accounts is reflected in Exhibit 1, page 2 of the application.

Farmers Rural Electric Cooperative
 Case No. 2008-00030
 Income Statement Accounts

Acct #	Description	Test					
		Year	2007	2006	2005	2004	2003
403.60	Distribution depreciati	1,861,095	1,765,566	1,635,799	1,544,665	1,481,826	1,424,484
403.70	General depreciation	107,643	102,335	109,993	93,658	106,384	101,804
408.10	Property tax	467,113	395,113	346,317	341,801	320,293	263,009
408.16	PSC assessment	38,841	37,018	34,271	32,319	31,969	32,414
418.11	Subsidiary income	(54,546)	(54,546)	(99,535)	(145,423)	(18,358)	(61,206)
418.11	Subsidiary income	(2,322)	203	1,725	(6,747)	(613)	(2,009)
419.00	Interest income	(74,836)	(122,824)	(145,626)	(114,087)	(84,719)	(61,115)
421.00	Gain loss on retiremen	(24,447)	(66,645)	(49,346)	496	(248)	12,559
423.00	Patonage capital - East KY						(1,392,056)
424.10	Patronage capital - oth	(110,965)	(92,487)	(60,677)	(61,269)	(28,743)	(27,513)
426.00	Donations	6,857	10,727	6,552	6,476	4,423	2,722
426.50	Other deductions						309
427.10	RUS interest	438,118	456,875	482,190	488,936	465,710	494,481
427.11	FFB interest	1,116,369	1,088,400	935,502	709,215	375,958	298,769
427.20	CFC interest	292,560	289,509	324,155	261,795	155,225	161,162
431.00	Interest - customer dep	53,947	51,286	48,985	43,987	41,811	40,665
431.10	Short-term loans	126,287	510	3,012		691	86,576
440.10	Residential	(26,957,097)	(26,450,827)	(23,743,770)	(22,712,747)	(19,208,242)	(17,815,396)
442.10	Small commercial	(2,679,151)	(2,673,771)	(2,270,987)	(2,082,158)	(1,729,653)	(1,532,686)
442.20	Large commercial	(11,044,969)	(11,191,814)	(10,553,938)	(9,860,045)	(8,942,040)	(7,960,738)
444.00	Street lights	(55,638)	(52,107)	(50,009)	(44,752)	(39,693)	(36,283)
450.00	Forfeit Discounts	(228,394)	(234,558)	(218,905)	(209,158)	(201,506)	(187,408)
451.00	Miscellaneous service	(61,524)	(82,053)	(32,879)	(8,809)	(9,986)	(10,711)
451.10	Trip charges	(65,959)	(83,870)	(100,417)	(102,735)	(86,050)	(88,753)
451.20	Return check	(4,170)	(3,745)	(3,805)	(3,290)	(3,405)	(4,140)
451.30	ETS	(816)	(518)	(840)	(797)	(2,677)	(7,692)
451.40	Reconnect, reg hrs	(22,455)	(21,225)	(20,718)	(15,105)	(16,740)	(13,920)
451.50	Reconnect, OT	(20,040)	(15,840)	(16,300)	(10,675)	(14,625)	(15,030)
451.60	Meter test	(945)	(945)	(1,080)	(1,225)	(1,020)	(975)
451.70	Insulation program	(32,796)	(63,445)	(28,921)	(12,003)	(22,822)	(42,449)
451.90	EKPC rebate	(18,094)	(17,200)	(97,349)	(136,696)	(77,051)	
454.00	Rent	(200,109)	(199,524)	(198,161)	(196,537)	(186,817)	(180,000)
456.00	Other electric	(63,776)	(63,605)	(83,844)	(34,387)	(14,127)	(19,064)
456.03	Retn FTSK	(4,800)	(5,200)	(4,400)	(4,800)	(8,050)	(9,900)
456.10	Temp servics	(29,706)	(36,995)	(39,146)	(35,261)	(26,612)	(23,153)
555.00	Purchase power	31,882,831	31,178,680	28,046,870	26,199,856	21,596,172	19,297,918
580.00	Supervision	47,957	38,008	31,512	35,219	110,312	191,648
583.00	Overhead Line Exp	154,230	100,249	83,223	68,777	49,597	116,915
583.10	PCB	2,792	166	2,391	1,799	1,236	(2,509)
586.00	Meter	243,016	89,227	197,565	337,005	340,055	315,262
587.00	Cust installation	18,416	22,662	22,368	19,339	15,527	16,054
587.10	Customer inspection				485	576	756
587.40	Temp service repairs	2,617	3,567	6,346	7,146	3,565	4,695
588.00	Miscellaneous Distrib	563,135	553,565	483,330	411,486	399,832	369,376
588.11	GIS maintenance	16,000	15,350	14,300	12,968	12,235	11,974
589.00	Pole rental					146	
593.00	Maintenance of overhc	545,613	493,199	458,809	487,983	489,763	459,674
593.01	Maintenance emerg re	535,112	453,808	487,102	358,825	509,699	327,952

Farmers Rural Electric Cooperative
Case No. 2008-00030
Income Statement Accounts

Acct #	Description	Test Year	2007	2006	2005	2004	2003
593.02	Maint - major storm		1,215	92	(30,254)	64,496	5,588
593.03	Maint - major storm						498
593.04	Maint - major storm		151			233	
593.05	Maint - major storm		105	450	129		1,146
593.10	Maint - ROW	2,324	1,079	2,610	5,605	4,254	4,340
593.11	Maint - hand clearing	121,875	172,788	177,232	184,215	183,274	185,369
593.12	Maint - mowing	407	2,743	1,074	12,174	16,584	5,038
593.13	Maint - Hot spot chemical		2,663		223		20
593.14	Maint - Hand clearing		31		854	770	1,075
593.15	Maint - brush hog				48	403	2,504
593.16	Maint - chemical					6	288
593.17	Maint - major equip	7,520	8,164	13,856	15,789	19,384	12,818
593.18	Maint - small tools	1,681	2,431	2,204	2,564	3,866	4,012
593.19	Maint - bad weather	2,290	3,036	5,839	4,671	6,959	6,336
593.22	Maint - sick	5,126	10,607	13,992	9,111	9,678	8,242
593.25	Maint - chemicals	261,517	267,442	97,801	219,961	187,937	194,223
293.26	Maint - hand clear						323
593.27	Maint - mowing cycle 2			1,095	3,432	983	887
593.28	Maint - chemical cycle 2			15,482	14,561		1,177
593.29	Maint - Cycle 2	719,703	570,479	338,189	378,723	340,630	317,024
593.30	Maint - poles	594	12,256	6,962	15,426	11,879	10,831
593.40	Maint - line inspection	15,958	36,554	9,857	15,253	4,148	12,682
595.00	Transformer maintenance	87,650	78,502	35,335	41,083	56,472	72,719
595.01	Transformer maint-em	22,621	27,507	38,921	23,174	28,433	31,864
595.02	Transf maint mafor storm					554	
595.10	Maint - voltage regulators				720	1,902	3,302
597.00	Maint meters	32,045	14,490	2,856	4,854	4,148	6,199
598.00	Miscellaneous distribu	78,001	86,343	96,388	89,102	94,562	86,094
598.10	Maint - street lights	440	547	141	5,627	1,755	1,748
902.00	Meter reading	71,242	83,770	154,821	141,318	133,498	133,481
903.00	Consumer records & c	872,761	776,661	673,962	595,461	568,238	596,849
903.10	Cash short (over)	147	(114)	122	174	24	183
904.00	Uncollectibles	157,500	180,000	72,000	225,000	196,800	146,400
904.10	Uncollectible - other	2,846	(51)	2,236	3,793	1,274	5,375
908.00	Informational	73,436	155,087	133,441	127,975	148,575	184,671
908.30	ETS expense	15,499	12,508	10,302	10,088	21,715	18,930
908.60	Button up	86,741	105,000	108,698	59,351	64,297	23,483
908.70	Insulation					(71)	108
909.00	Public safety awareness	8,944	10,962	6,598	7,455	13,583	19,248
912.00	Demonstration & selli	136	136				
920.00	Administrative salaries	628,734	556,054	540,457	514,394	535,752	519,366
920.10	Capital credit exp	2,289	2,412	3,001	3,704	4,069	3,650
921.00	Office supplies & exp	218,881	218,950	221,032	259,745	272,369	275,033
923.00	Outside services	39,275	31,822	69,769	19,841	25,504	20,229
924.00	Property insurance	17,630	16,255	12,259	12,458	9,834	9,843
925.00	Injuries and damages	63,841	54,200	54,095	59,875	51,135	51,315
926.00	Employee training/edu	256,399	212,113	180,919	221,766	201,672	209,740
926.10	Employee benefits	(13,569)					

Farmers Rural Electric Cooperative
Case No. 2008-00030
Income Statement Accounts

Acct #	Description	Test <u>Year</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
930.10	General advertising	117,494	105,757	98,677	95,316	96,692	122,351
930.20	Misc general	82,238	91,735	89,699	83,047	83,885	114,733
930.21	Annual meeting	39,969	36,447	35,066	30,598	31,467	25,233
930.23	Public relations & imn	126,748	92,530	93,988	119,919	78,279	
930.30	Directors	119,179	123,370	83,373	76,716	106,138	94,372
931.20	Misc general						
932.00	Maintenance of generæ	51,177	70,992	46,772	36,458	44,466	38,279
932.01	Substation mowing	136	180	806	600	200	364
		1,162,419	(151,812)	(505,867)	(612,373)	(478,087)	(1,873,945)

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

14. Provide a copy of the audit adjustments for the year ended December 31, 2007.

Response

There were audit adjustments for the year ended December 31, 2007.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Refer to Farmers' Application at Exhibit B.

Question:

- a. Farmers requested that the 85 percent power factor be increased to 90 percent on several of its tariff schedules. Provide the impact on test year revenues and expense of the proposed changes to the power factors of each tariff separately.

Response:

- a. The power factor penalty was not invoked during the test year and no revenues were collected as a result of this penalty clause.

Question:

- b. State why the impact of change to the power factors was not accounted for in Farmers pro forma adjustments as shown at Exhibit S of the Application.

Response:

- b. Since the power factor penalty was not invoked during the test year with no resulting revenue, the impact of the change to the power factors had no impact upon the pro forma adjustments as shown in Exhibit S.

Questions:

- c. State why the impact of the change to the late payment penalty was not accounted for in Farmers' pro forma adjustments as shown at Exhibit S of the Application.

Response:

Please see the response to Item No. 4 of this data request.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

16. Refer to Farmers' Application at Exhibit Y, page 6. Provide the general ledger detail for account 588.00 – Misc. Dist. Exp. that totals \$563,135.45. Include an explanation for each entry to this account.

Response

Detail and explanation for Account No. 588.00 – Misc. Dist. Exp. is attached.

Employee labor	211,055.06
Accrued vacation	18,658.26
Health insurance	77,642.81
Payroll taxes	20,286.23
Workers compensation	10,406.09
Life and disability	4,029.15
401(k)	2,081.15
R & S retirement	34,845.17
Employee assistance	151.75
General maintenance of lines	120.00
Maintenance, phones, radio, etc	8,709.75
Fuel, Federal Mogul generator	129,751.42
Remote monitoring, Federal Mogul	12,000.00
System mapping costs	10,051.58
Annual lease	5,591.90
Transportation clearing	17,755.13
	<u>563,135.45</u>

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

17. Refer to Farmers' Application at Exhibit Y, page 7. The following accounts appear on page 7.

593.00	Maint. Of Overhead Lines	\$545,613.21
593.01	Maint. Of Line/Emer. Repair	535,112.35
593.02	Maint./Major Storm Dam.	0
593.03	Maint./Ice Storm Disaster	0
593.04	Maint. Of Line/Major Storm	0
593.05	Maint./Storm Damage/Apr.98	0
595.00	Maint. of Line Trans.	87,649.68
595.01	Maint. of Trans./Emerg. Repr.	22,621.06
595.02	Maint./Trans-Major Storm Dam.	0

- a. Provide the general ledger detail for accounts 593.00, 593.01, 595.00 and 595.01. Include an explanation for each entry on this detail.
- b. Accounts 593.00 and 593.01 are both for maintenance of lines. Explain how these accounts are different from one another and how Farmers determines which of these accounts to use when recording expenses.
- c. Describe the nature of the amounts charged to account 593.00 and how it is different from the nature of the amounts charged to account 593.01.
- d. Accounts 595.00 and 595.01 are for maintenance of transformers. Explain how these accounts are different from one another and how Farmers determines which of these accounts to use when recording expenses.
- e. Describe the nature of the amounts charged to account 595.00 and how it is different from the nature of the amounts charged to account 595.01.
- f. Accounts 593.20, 593.30, 593.40, 593.50 and 595.02 all have titles that indicate the accounts are reserved for expenses related to storm damages.
 - (1) All of these accounts have \$0 balances for the test year. Did Farmers incur any storm damage expenses during the test year? If yes, provide the amount of test year storm damage expenses and the accounts to which these expenses were charged.
 - (2) Explain how any amounts Farmers would charge to these accounts would differ from the amounts Farmers would charge to accounts 593.01 and 595.01.
- g. Provide a comparison of the annual expense reported by Farmers in each account shown above for the years 1998 through 2007. If, during any of these years, Farmers reported maintenance of lines and transformers, emergency maintenance of lines and transformers, or storm related expenses for lines and transformers in any accounts other than those shown above, include those other accounts in this analysis as well.

h. Provide the number of regular and overtime labor hours included in each annual expense account listed in response to item g.

i. Provide the amount of any reimbursement for the annual storm damage expenses listed in response to item g.

Response

17.a.

Details for accounts 593.00, 593.01, 595.00, and 595.01 are attached.

	<u>593.00</u>	<u>593.01</u>	<u>595.00</u>	<u>595.01</u>
Employee labor	151,773	243,691	4,144	10,776
Accrued vacation	13,625	21,671	348	924
Health insurance	58,050	85,512	1,366	3,315
Payroll taxes	14,881	23,585	390	986
Workers compensation	7,485	11,834	251	471
Life and disability	3,058	4,498	80	154
401(k)	1,514	2,426	43	101
R & S retirement	25,093	40,145	693	1,756
Employee assistance	98	178	5	13
Office supplies	51		55	
Material issued	25,387		11,316	
Supplies and small tools	712	6,358		
Contractor and supplies	142,966	1,525	583	
Maintenance of meter dept	868		33	
Maintenance of transformers			59,582	
Maintenance, customer repairs	350			
Stores expense	18,827		7,068	
Telephone expense	18,371			
After hour dispatch		17,484		
Trash pick up	24			
Transportation clearing	62,479	76,204	1,694	4,126
	<u>545,613</u>	<u>535,112</u>	<u>87,650</u>	<u>22,621</u>

17.b.

Account 593.00 is for normal maintenance activities. Account 593.01 is for trouble and overtime maintenance.

17.c.

Unusual trouble items and overtime are recorded in Account 593.01 with other maintenance being recorded in Account 593.00.

17.d.

Account 595.00 is for normal transformer maintenance activities. Account 595.01 is for trouble and overtime maintenance of transformers.

17.e.

Unusual trouble items and overtime are recorded in Account 593.01 with other maintenance being recorded in Account 593.00.

17.f.(1).

None.

17.f.(2)

These accounts are generally used when it is estimated that the storm will be eligible for FEMA reimbursements. It is not always known that a storm will be eligible for FEMA reimbursement. Sometimes counties are not declared until some time after the storm occurs.

17.g.

The annual expense for each account is attached.

	<u>593.02</u>	<u>593.03</u>	<u>593.04</u>	<u>593.05</u>	<u>595.02</u>
2007	1,215	151		105	
2006	92			450	
2005	34,731			129	
2004	64,496		233		
2003	5,588	498		1,146	
2002					
2001					
2000					
1999		33			
1998				113,458	

17.h.

The annual regular and overtime hours for each account is attached.

		<u>593.02</u>	<u>593.03</u>	<u>593.04</u>	<u>593.05</u>	<u>595.02</u>
2007	reg			4		
	ot				2	
2006	reg	2				
	ot				10	
2005	reg				4	
	ot	15				
2004	reg	238	3	6		
	ot	938			2	
2003	reg			6		
	ot		11		21	
2002	reg					
	ot					
2001	reg					
	ot					
2000	reg					
	ot					
1999	reg					
	ot					
1998	reg				1,172	
	ot				997	

17.i.

The reimbursement for each account is attached.

	<u>593.02</u>	<u>593.03</u>	<u>593.04</u>	<u>593.05</u>	<u>595.02</u>
2007					
2006					
2005	64,985				
2004					
2003					
2002					
2001					
2000					
1999					
1998				103,209	

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

18. Refer to Farmers' Application at Exhibit Y, page 8. Provide the general ledger detail for account 926.00 – Empl Training/Educational Prog that totals \$256,399.13. Provide the general ledger detail for this account. This detail should include an explanation for all entries to the account.

Response

The detail for Account No. 926.00 – Employee Training/Educational Prog. is attached.

Employee labor	103,138.51
Accrued vacation	835.20
Health insurance	25,367.96
Payroll taxes	6,514.57
Workers compensation	3,492.23
Life and disability	1,262.82
401(k)	678.62
R & S retirement	11,481.23
Employee assistance	48.15
Postage	9.19
Service awards	1,635.25
Wellness program	6,206.05
Employee picnic	3,789.67
Employee meetings	16,458.57
Employee coffee supplies	3,552.99
Employee Christmas party	6,594.17
Flowers, employees family	735.50
Secretaries day lunch	187.62
Employee training programs	16,675.84
Board room supplies	77.95
Employee uniforms	24,896.91
Employee retirement gifts	2,703.84
Food, extreme weather	500.18
Employee Christmas gifts	12,385.00
Rotary dues	576.00
Transportation clearing	6,595.11

256,399.13

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

19. Refer to Farmers' Application at Exhibit Y, page 8, where the following account information is shown.

930.10	General Advertising	\$117,494.13
930.20	Miscellaneous General	82,237.53
930.21	Annual Meeting	39,968.71
930.23	Public Relations & Image	126,747.89

- a. Provide the general ledger detail for each account. This detail should include an explanation for all entries to the account.
- b. Highlight each entry to these accounts that have been removed for ratemaking purposes in Exhibit 11.

Response

19.a.

The detail for Account 930.10 – General Advertising is reflected in Exhibit 11, page 3 of the Application.

The detail for Account 930.20 – Miscellaneous General is reflected in Exhibit 11, pages 4-5 of the Application.

The detail for Account 930.21 – Annual Meeting is reflected in Exhibit 11, page 6 of the Application.

The detail for Account 930.23 – Public Relations & Image is reflected in Exhibit 11, pages 7-9 of the Application.

19.b.

Each item to be removed for rate-making purposes has been indicated with an "x".

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

20. Refer to Farmers' Application at Exhibit Y, page 8. Page 8 includes account 930.30 – Director's Fees and Expenses that totals \$119,178.85.

a. Provide the general ledger detail for this account. This detail should include an explanation for all entries to the account.

b. Confirm that the \$119,178.85 includes all test year expenses incurred by Farmers that were either paid directly to or on behalf of its board members and that no other expenses paid directly to or on behalf of its board members were included in the test year expenses in any other separate accounts.

Response

20.a.
This is reflected as Exhibit 10 of the application.

20.b.
Yes, this is correct.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

21. Refer to Farmers' Application at Exhibit 5, pages 4 and 5.
- a. At page 4, the amount of outstanding short-term debt at the end of the test period is stated at \$4,817,646. State the uses of this short-term debt.
- b. At page 5, the amount of the "AR8" loan funds available after Farmers files a rate application with the Commission are stated to be \$8,701,000.
- (1) State the dates and amounts of all draws on the "AR8" loan funds.
- (2) State the purpose of each draw on the "AR8" loan funds.
- (3) State the annual rate of interest on the "AR8" loan funds.

Response

21.a.
Short term debt was accumulated to fund construction projects, pay for operating and maintenance costs, taxes, cost of power, and other expenses in the normal course of business.

21.b.(1)
Farmers advanced \$7,000,000 against the loan funds available on January 11, 2009.

21.b.(2)
The \$7 million advance was used to repay short term borrowings in the amount of \$6,977,646.

21.b.(3)
The interest rate on the \$7 million advance is 3.406%.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

22. Refer to Farmers' Application, Exhibits 1 and 7.
- a. Reconcile the "Normalized Base Wages" as stated in Exhibit 7, page 1, of \$2,674,553 to the test year or pro forma wages, whichever is applicable, as stated on Exhibit 1, page 1.
- b. On Exhibit 7, page 1, the "Contribution Rate for 2008" is stated at 17.83 percent. This rate is inconsistent with the information provided in Exhibit 7, page 3, where the 2008 "System Cost" rate is stated at 15.93 percent and the 2009 "System Cost" rate is stated at 17.83 percent. Should page 1 read Contribution Rate for 2009 instead of 2008 or should the rate on page 1 be changed to 15.93 percent?
- c. State the portion of the contribution rate, if any, paid to NRECA by Farmers for which Farmers is reimbursed by the employee.

Response

Item 22.a.
Reconciliation of base wages is attached.

Normalized base wages:	
Salary employees	634,795
Hourly employees	2,169,149
	<u>2,803,944</u>
less Quasi retired employees	(129,391)
Eligible wages	<u><u>2,674,553</u></u>

or, to calculate another method:

Total normalized wages	2,843,032
less non eligible wages for summer and part time	(39,088)
	<u>2,803,944</u>
less Quasi retired employees	(129,391)
Eligible wages	<u><u>2,674,553</u></u>

Item 22.b.

Page 1 should state 2009 instead of 2008. The rate for 2009 is 17.83 percent.

22.c.

Farmers makes all the contributions for pension expense.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

23. With regard to Farmers' health insurance program:
- a. Provide a statement detailing the monthly health insurance costs incurred by Farmers for the test year for each employee;
 - b. Show how the test year health insurance costs were distributed to the accounts shown on the trial balance as provided in Farmers' Application at Exhibit Y; and
 - c. Provide a five-year comparison of health insurance costs as distributed to the accounts shown on the trial balance as provided in Farmers' Application at Exhibit Y.

Response

23.a. Farmers maintains self-fund health insurance plan. North America Administrators administers the plan for Farmers. The reserve balance in the fund is established as one-half (1/2) of the estimated annual claims expected to be paid from the fund. Any Surplus/Deficit is divided by 3 and either added to, or deducted from, the monthly payment. The reason for dividing the Surplus/Deficit by 3 is to smooth this amount over several months so one month does absorb all of the amount. Monthly premiums for purposes of funding the plan are as follows:

Single	\$592.00
Family	\$1,209.00
Dental	\$22.00

23.b. The benefits are allocated to accounts as per Exhibit 19, page 1, of the application.

23.c. The five-year comparison of health insurance costs are as follows:

Test year	907,532
2007	927,495
2006	597,901
2005	597,196
2004	809,967
2003	715,308

PSC - 2 - 23-a.

INVOICE	FROM	TO
	NORTH AMERICA ADMINISTRATORS 1212 EIGHTH AVENUE SOUTH NASHVILLE, TN 37203	FARMER'S RURAL ELECTRIC COOP 504 S BROADWAY P.O. BOX 1298 GLASGOW, KY 421421298

Invoice Number	Invoice Date	Customer Number	Group Identification	Div.	For Billing Questions call
025217	09/01/2008	00334-0001	002334	ALL	615-256-3561 X138

Billing Month	Coverage Category	Description of Services	Invoice Amount	Credit Amount	Amount Due
09/2008	DENTAL	DENTAL FEE	0.00	0.00	0.00
09/2008	MEDICAL	SPEC PREMIUM	18,407.42	0.00	18,407.42
09/2008	MEDICAL	AGGREGATE PREMIUM	795.60	0.00	795.60
09/2008	MEDICAL	ADMIN FEE	1,194.00	0.00	1,194.00
09/2008	MEDICAL	COBRA FEES	68.00	0.00	68.00
09/2008	MEDICAL	HIPAA FEE	68.00	0.00	68.00
09/2008	MEDICAL	MED-CERT	170.00	0.00	170.00
09/2008	MEDICAL	PPO ADMIN FEE	166.60	0.00	166.60
09/2008	MEDICAL	PPO ACCESS FEE	340.00	0.00	340.00
09/2008	MEDICAL	DISEASE MANAGEMENT	102.00	0.00	102.00
09/2008	DENTAL	ADMIN FEE	42.00	0.00	42.00
TOTAL AMOUNT DUE					===== > 21,353.62

BILLING IS DUE BY THE 10TH OF EACH MONTH

TO
 NORTH AMERICA ADMINISTRATORS
 1212 EIGHTH AVENUE SOUTH

 NASHVILLE, TN 37203

Invoice Number	Invoice Date	Customer Number	Amount Due
025217	09/01/2008	00334-0001	21,353.62

FOR
 FARMER'S RURAL ELECTRIC COOP
 504 S BROADWAY
 P.O. BOX 1298
 GLASGOW, KY 421421298

Group Identification	Div.	Enter Amount of Payment
002334	ALL	\$

September-08

Target Reserve Balance

Annual Claim Fund - Expected	\$	876,137.16
	x	50%
Reserve Balance Goal	\$	<u>438,068.58</u>

Previous Month's

Reserve Balance	\$	506,983.70	(input month)
<u>less:</u>			
Target Reserve	\$	<u>438,068.58</u>	
Surplus/(Deficit)	\$	68,915.12	
Divided by 3 =	\$	<u>22,971.71</u>	

Monthly Accrual Formula - Medical / Dental Plan

Plan Participants

No. Single - Medical	16	X	\$	592.00	\$	9,472.00
No. Family - Medical	49	X	\$	1,209.00	\$	59,241.00
No. - Dental	68	X	\$	22.00	\$	<u>1,496.00</u>

Monthly Premiums \$ 70,209.00

Less:

Reserve Overage \$ 22,971.71

Monthly Accrual \$ 47,237.29

RETIRE 14300 ACCT \$ 964.00

EMP PD 24270 \$ 7,855.00

DIRECTOR PD 24271 \$ 561.00

CHECK TO NA \$ 21,353.62

TOTAL \$ 77,970.91

PSC 2.23 a 1

2008	No. of Contracts	Company Contributions	Participant Contributions	Interest Earned	Total Contributions	Admin. & Ins. Fees	Other Fees	Claims Paid	Excess Risk or Reimbursemen	Surplus or (Deficit)
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436830.23

BEG BAL

JAN	66	93,660.85	12,568.50	448.41	106,677.76	21,647.85	0	54,767.52	\$991.00	31,253.39
FEB	67	95,725.33	11,195.00	467.61	107,387.94	23,216.00	0	47,912.54	47511.73	83,771.13
MARCH	67	58,634.39	11,954.50	531.73	71,120.62	22,317.34	0	52,943.12	869.50	-4,029.84
APRIL	66	44,665.96	11,743.50	432.38	56,841.84	21,929.14	0	69,404.90	1,373.50	-34,492.10
MAY	66	46,323.44	11,743.50	390.77	58,457.71	21,960.22	0	95,364.52	7,401.70	-52,224.83
JUNE	66	40,309.37	10,809.00	340.75	51,459.12	21,926.14	0	65,661.07	1107.51	34,954.22
JULY	67	22,171.89	10,169.00	247.83	32,588.72	22,289.31	0	52,925.37	26534.55	-16,091.41
AUG	66	80,549.74	9,994.00	236.47	90,780.21	21,545.46	0	47,128.90	980.26	23,086.11
SEPT	65	68,590.91	9,380.00		77,970.91	21,353.62	0	86,455.91	11473.71	-18,364.91
OCT					0.00				12024.28	0.00
NOV					0.00					0.00
DEC					0.00					0.00

TOTALS										484,691.99
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PSC - 2.23.0

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

24. Refer to Farmers' Application at Exhibit S, page 3, Adjustment 11, and Exhibit 11, page 1. State whether it was Farmers' intention to decrease test year expenses by \$29,039 instead of increasing expenses by making this adjustment.

Response

Farmers should have decreased expenses by the \$20,039. This was recorded in reverse of what it should have been.

FARMERS RECC
CASE NO. 2008-00030

RESPONSE TO THE COMMISSION STAFF'S SECOND DATA REQUEST

Questions:

Refer to Farmers' Application at Exhibit 11, page 3.

- a. Describe how the monthly amounts due to KAEC are determined.
- b. Describe how these payments benefit Farmers' rate-payers.

Response:

a. The monthly amounts paid to KAEC are based on the number of consumers served by Farmers RECC. Some of the charges for the Kentucky Living magazine may vary a little dependent upon any special requests for Farmers.

b. KAEC provides an array of benefits that is vital to Farmers and its members including the below listed ones.

- Legislative representation
- Safety and loss prevention programs
- Communications and public relations services
- Assistance with annual membership meetings
- Youth programs
- Technical assistance
- Legal Assistance
- The Kentucky Living magazine
- Regulatory body representation

Farmers uses the Kentucky Living magazine as its primary means of communicating with its membership. The monthly newsletter of Farmers is distributed to the membership through this magazine. Communications with members is one of the seven principles of cooperatives.

Farmers Rural Electric Cooperative
Case No. 2008-0030
Second Data Request of Commission Staff

26. Refer to Farmer's Application at Exhibit 11, pages 7-9. These pages include payments to KAEC. Describe the services received by Farmers for each of these payments and describe how these services benefited Farmers' ratepayers.

Response

For payments that are for KY Living magazine, refer to 25.b. of this response.

The payments that do not benefit Farmers' ratepayers are indicated with an "x" beside the amount and description. These have been removed for rate making purposes.

For a description of the Cooperative Connect Card, see AG-1-24.d.