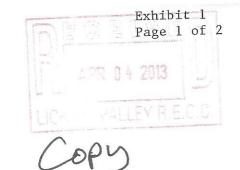




United States Department of Agriculture Rural Development



Mr. Kerry K. Howard
General Manager/CEO
Licking Valley Rural Electric
Cooperative Corporation
P.O. Box 605
West Liberty, Kentucky 41472-0605

Dear Mr. Howard:

We have completed our review of Licking Valley Rural Electric Cooperative Corporation's Rural Utilities Service (RUS) Form 7, Financial and Statistical Report, for the year ending December 31, 2012. While we are pleased to note that your cooperative has exceeded the minimum financial coverage ratios outlined in Article V, Section 5.4 (b) of the Loan Contract, we are concerned that the Operating Times Interest Earned Ratio (OTIER) has declined over the last several years and that, should this trend continue, an adequate ratio will not be achieved.

Please let us know what areas have had an adverse effect on your cooperative's financial condition and outline any corrective measures that have been or will be implemented to improve this declining ratio. Please include the projected Times Interest Earned Ratio (TIER), OTIER, Debt Service Coverage and Operating Debt Service Coverage for the year ending December 31, 2013.

Sincerely,

BRIAN D. JENKINS

Chief, Operations Branch Northern Regional Division

Electric Programs

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

Committed to the future of rural communities.

LICKING VALLEY

RURAL ELECTRIC COOPERATIVE CORPORATION

P. O. Box 605 • 271 Main Street West Liberty, KY 41472-0605 (606) 743-3179



KERRY K. HOWARD General Manager/CEO

April 04, 2013

Mr. Brian D. Jenkins Chief, Operations Branch Rural Utilities Service Northern Regional Division STOP 1566 1400 Independence Avenue SW Washington, DC 20250-1566

Dear Mr. Jenkins:

In reference to your letter dated April 02, 2013, we at Licking Valley RECC are presently making additional cuts in our operations, even though we have a very limited budget to begin with. We are also considering applying for a rate increase which would be under the Kentucky Public Service Commission's consideration.

Some of the reasons for not meeting minimum TIER include the rising cost of material, fuel, and power. In addition, our consumers are also feeling the crunch and some are simply not able to pay their bills; therefore, growth in write-offs.

If additional information is needed or required, please do not hesitate to contact me.

Sincerely,

Kerry K. Howard General Manager/CEO

KKH:slv

c: Mike J. Norman