

From: [Michelle Herrman](#)
To: [Ashley Welsh](#); [Elaine MacDonald](#)
Subject: Collateral Information From SKRECC KY 054
Date: Tuesday, November 28, 2017 3:50:00 PM
Attachments: [DOC112817-11282017103254.pdf](#)

Ashley and Elaine,

I am forwarding the current contract language regarding Collateral in connection with the purchase power agreement that we are considering.

The potential contract is a 20 year contract to purchase 58 MW of power per year.

My interpretation of the collateral needed was incorrect in our last discussion. The calculation of the Collateral requirement is based upon the attached and the following definition:

On any Calculation Date, The "Exposure Amount" for each Party shall be calculated for all Transactions for which there are any Obligations remaining unpaid or unperformed, by calculating each Party's Exposure to the other Party in respect of each such Transaction and determining the net aggregate sum of all Exposures for all Transactions for each Party. The Party having the greater Exposure Amount at any time (the "Secured Party") shall be deemed to have a "Net Exposure" to the other Party equal to the Secured Party's Exposure Amount.

The "Collateral Requirement" for a Party (the Pledging Party) means the Secured Party's Net Exposure minus the sum of :

- 1- The Pledging Party's Collateral Threshold: plus
- 2- the amount of Cash previously Transferred to the Secured Party, the amount of Cash held by the Secured Party as Performance Assurance as a result of drawing under any Letter of Credit, and any Interest Amount that has not yet been Transferred to the Pledging Party; plus
- 3- the Collateral Value of each Letter of Credit and any other form of Performance Assurance (other than Cash) maintained by the Pledging Party for the benefit of the Secured Party; provided, however, that the Collateral Requirement of a Party's Collateral Requirement yields a number less than zero.

It is now my basic understanding that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average.

If the credit event trigger were to occur, the collateral requirement would be calculated at that time. Basic calculation would be the dollar amount that the market currently bears for the energy (say █████ MWh versus our contract cost of say █████ MWh). The \$2 difference per MWh would be the basis for the collateral calculation. This times the number of MWh's remaining for the contract less the collateral threshold would be the collateral requirement.

So at this time it would be hard to gauge how much a letter of credit would need to be. Perhaps you might have some advice on what you may have done with other cooperatives that have made energy purchases away from the traditional G&T model. Do you see any challenges on CFC's part to be able to provide a letter of credit to us, if the situation arose or if there was a long term requirement?

I appreciate your assistance.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337

-----Original Message-----

From: Toshiba fax [<mailto:Toshiba6530cAcct@skrecc.com>]

Sent: Tuesday, November 28, 2017 10:33 AM

To: Michelle Herrman <michelleh@skrecc.com>

Subject: Send data from MFP11801996 11/28/2017 10:33

Scanned from MFP11801996

Date:11/28/2017 10:33

Pages:9

Resolution:200x200 DPI

CREDIT ELECTIONS COVER SHEET

Paragraph 10. Elections and Variables

I. Collateral Threshold.

A. Party A Collateral Threshold.

\$ _____ (the "Threshold Amount") The Collateral Threshold for Party A shall be the amount set forth under the "Threshold Amount" in the table below opposite the Calendar Year on the relevant date of determination [NOTE: Collateral Threshold under MSCG Credit group review]; provided, however, that the Collateral Threshold for Party A shall be zero (\$0) upon the occurrence and during the continuance of a Credit Event, an Event of Default or a Potential Event of Default with respect to Party A; and provided further that, in the event that, and on the date that, Party A cures the Credit Event or Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Credit Event or Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from zero to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

<u>Calendar Year</u>	<u>Threshold Amount</u>
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	
2027	
2028	
2029	
2030	
2031	
2032	

2033	
2034	
2035	
2036	
2037	
2038	
2039	

“Credit Event” shall mean, with respect to Party A, that either (a) Party A’s TIER Ratio shall fall below an average TIER Ratio of 1.25 over two of the past three calendar years; or (b) Party A’s DSC Ratio shall fall below an average DSC Ratio of 1.25 over two of the past three calendar years. [NOTE: TIER and DSC Ratios, and associated definitions, are under MSCG Credit group review]

“CFC” means the National Rural Utilities Cooperative Finance Corporation.

“CoBank” means CoBank, ACB, an agricultural credit bank organized pursuant to the Farm Credit Act of 1971.

“DSC Ratio” means, for Party A for any calendar year, the debt service coverage ratio set forth in Party A’s [annual financial report on Form 7 to Party A’s primary Lender]. In the event Party A’s Lender ceases to use Form 7 or its equivalent, the Debt Service Coverage Ratios shall be as calculated in the same manner as calculated by Party A’s Lender.

“Form 7” means the Financial and Statistical Report on Form 7, or its successor or equivalent, as adopted for use by the RUS, for the applicable calendar year.

“Lender” means, from time-to-time throughout the Term, the entity having at the time the largest principal amount loaned to Party A then outstanding from the following list of entities: (a) RUS, (b) CFC (c) CoBank, or (d) in the event Party A has no outstanding obligations with the foregoing, any other bank, savings-and-loan, surety, financial institution or governmental or quasi-governmental entity acting as a lender of borrowed money or that has extended lines of credit (including for letters of credit) to the applicable Party or its Guarantor.

“RUS” means the Rural Utilities Service, a Division of the United States Department of Agriculture.

“TIER Ratio” means, for Party A for any calendar year, the times interest earned ratio set forth in Party A’s [annual financial report on Form 7 to Party A’s primary Lender]. In the event Party A’s Lender ceases to use Form 7 or its equivalent, the TIER Ratio shall be as calculated in the same manner as calculated by Party A’s Lender.

copy of mortgage?

- (a) The amount (the “Threshold Amount”) set forth below under the heading “Party A Collateral Threshold” opposite the Credit Rating for Party A on the relevant date of determination, and if Party A’s Credit Ratings shall not be equivalent, the lower Credit Rating shall govern or (b) zero if on the relevant date of determination Party A does not have a Credit Rating from the rating agency(ies) specified below or an Event of Default or a Potential Event of Default with respect to Party A has occurred and is continuing; provided, however, in the event that, and on the date that, Party A cures the Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from zero to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand:

Party A

Collateral Threshold

S&P Credit Rating

Moody's Credit Rating

The foregoing paragraph notwithstanding, so long as Party A is not experiencing an Event of Default or Potential Event of Default, its Threshold Amount shall be [an amount equal to an estimated 12 months of payments owed to MSCG]. The Collateral Threshold for Party A shall be [an amount equal to an estimated 3 months of payments owed to MSCG] upon the occurrence and during the continuance of an Event of Default or a Potential Event of Default with respect to Party A; and provided further that, in the event that, and on the date that, Party A cures the Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from the amount set forth herein to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

- The amount of the Guaranty Agreement dated _____ from _____, as amended from time to time but in no event shall Party B's Collateral Threshold be greater than \$ _____.

B. Party B Collateral Threshold.

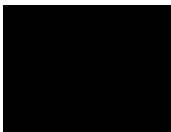
- \$ _____ (the "Threshold Amount"); provided, however, that the Collateral Threshold for Party B shall be zero upon the occurrence and during the continuance of an Event of Default or a Potential Event of Default with respect to Party B; and provided further that, in the event that, and on the date that, Party B cures the Potential Event of Default on or prior to the date that Party B is required to post Performance Assurance to Party A pursuant to a demand made by Party A pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party B shall automatically increase from zero to the Threshold Amount and (ii) Party B shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

- X (a) The amount (the "Threshold Amount") set forth below under the heading "Party B Collateral Threshold" opposite the Credit Rating for ~~{Party B}~~{Party B's Guarantor} on the relevant date of determination, and if ~~{Party B's}~~{Party B's Guarantor's} Credit Ratings shall not be equivalent, the lower Credit Rating shall govern or (b) zero if on the relevant date of determination ~~{Party B}~~{its Guarantor} does not have a Credit Rating from the rating agency(ies) specified below or an Event of Default or a Potential Event of Default with respect to Party B has occurred and is continuing; provided, however, in the event that, and on the date that, Party B cures the Potential Event of Default on or prior to the date that Party B is required to post Performance Assurance to Party A pursuant to a demand made by Party A pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party B shall automatically increase from zero to the Threshold Amount and (ii) Party B shall be relieved of its obligation to post Performance Assurance pursuant to such demand:

Party B

Collateral Threshold

S&P Credit Rating



A+ and above
A- / A
BBB- to BBB+
Below BBB-

~~[NOTE: MSCG Collateral Thresholds are under MSCG Risk group review]~~

- The amount of the Guaranty Agreement dated _____ from _____, as amended from time to time but in no event shall Party B's Collateral Threshold be greater than \$ _____.

II. Eligible Collateral and Valuation Percentage.

The following items will qualify as "Eligible Collateral" for the Party specified:

	<u>Party</u> <u>A</u>	<u>Party</u> <u>B</u>	<u>Valuation Percentage</u>
(A) Cash	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%
(B) <u>Letters of Credit issued by a Qualified Issuer</u>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100% unless either (i) a Letter of Credit Default shall have occurred and be continuing with respect to such Letter of Credit, or (ii) twenty (20) or fewer Business Days remain prior to the expiration of such Letter of Credit, in which cases the Valuation Percentage shall be zero (0).
(C) Letter of Credit issued by National Rural Utilities Cooperative Finance Corporation ("CFC") or CoBank as long as either CFC or CoBank, as applicable, has a Credit Rating of at least (i) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (ii) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<u>100% unless either (i) a Letter of Credit Default shall have occurred and be continuing with respect to such Letter of Credit, or (ii) twenty (20) or fewer Business Days remain prior to the expiration of such Letter of Credit, in which cases the Valuation Percentage shall be zero (0).</u>
(D) Negotiable debt obligations (other than interest-only securities) issued by the U.S. Treasury Department having a remaining maturity of more than 1 year but not more than 5 years	<input type="checkbox"/>	<input type="checkbox"/>	96%
(E) Negotiable debt obligations (other than interest-only securities) issued by the U.S. Treasury Department having a remaining maturity of more than 5 years	<input type="checkbox"/>	<input type="checkbox"/>	94%

III. Independent Amount.

A. Party A Independent Amount.

- X Party A shall have a Fixed Independent Amount of [REDACTED]. If the Fixed Independent Amount option is selected for Party A, then Party A (which shall be a Pledging Party with respect to the Fixed IA Performance Assurance) will be required to Transfer or cause to be Transferred to Party B (which shall be a Secured Party with respect to the Fixed IA Performance Assurance) Performance Assurance with a Collateral Value equal to the amount of such

Independent Amount (the "Fixed IA Performance Assurance"). The Fixed IA Performance Assurance shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the Agreement, and shall not be taken into account when calculating Party A's Collateral Requirement pursuant to the Collateral Annex. Except as expressly set forth above, the Fixed IA Performance Assurance shall be held and maintained in accordance with, and otherwise be subject to, Paragraphs 2, 5(b), 5(c), 6, 7 and 9 of the Collateral Annex.

- Party A shall have a Full Floating Independent Amount of \$ _____. If the Full Floating Independent Amount option is selected for Party A, then for purposes of calculating Party A's Collateral Requirement pursuant to Paragraph 3 of the Collateral Annex, such Full Floating Independent Amount for Party A shall be added by Party B to its Exposure Amount for purposes of determining Net Exposure pursuant to Paragraph 3(a) of the Collateral Annex.
- Party A shall have a Partial Floating Independent Amount of \$ _____. If the Partial Floating Independent Amount option is selected for Party A, then Party A will be required to Transfer or cause to be Transferred to Party B Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Partial Floating IA Performance Assurance") if at any time Party A otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the Collateral Annex. The Partial Floating IA Performance Assurance shall not be reduced so long as Party A has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall not be taken into account when calculating a Party's Collateral Requirements pursuant to the Collateral Annex. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the Collateral Annex.

B. Party B Independent Amount.

- X Party B shall have a Fixed Independent Amount of █. If the Fixed Independent Amount Option is selected for Party B, then Party B (which shall be a Pledging Party with respect to the Fixed IA Performance Assurance) will be required to Transfer or cause to be Transferred to Party A (which shall be a Secured Party with respect to the Fixed IA Performance Assurance) Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Fixed IA Performance Assurance"). The Fixed IA Performance Assurance shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the Agreement, and shall not be taken into account when calculating Party B's Collateral Requirement pursuant to the Collateral Annex. Except as expressly set forth above, the Fixed IA Performance Assurance shall be held and maintained in accordance with, and otherwise be subject to, Paragraphs 2, 5(b), 5(c), 6, 7 and 9 of the Collateral Annex.
- Party B shall have a Full Floating Independent Amount of \$ _____. If the Full Floating Independent Amount Option is selected for Party B then for purposes of calculating Party B's Collateral Requirement pursuant to Paragraph 3 of the Collateral Annex, such Full Floating Independent Amount for Party B shall be added by Party A to its Exposure Amount for purposes of determining Net Exposure pursuant to Paragraph 3(a) of the Collateral Annex.
- Party B shall have a Partial Floating Independent Amount of \$ _____. If the Partial Floating Independent Amount option is selected for Party B, then Party B will be required to Transfer or cause to be Transferred to Party A Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Partial Floating IA Performance Assurance") if at any time Party B otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the Collateral Annex. The Partial Floating IA Performance Assurance shall not be reduced for so long as Party B has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall

not be taken into account when calculating a Party's Collateral Requirements pursuant to the Collateral Annex. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the Collateral Annex.

IV. Minimum Transfer Amount.

- A. **Party A Minimum Transfer Amount:** [Redacted]
- B. **Party B Minimum Transfer Amount:** [Redacted]

V. Rounding Amount.

- A. **Party A Rounding Amount:** [Redacted]
- B. **Party B Rounding Amount:** [Redacted]

VI. Administration of Cash Collateral.

A. Party A Eligibility to Hold Cash.

- Party A shall not be entitled to hold Performance Assurance in the form of Cash. Performance Assurance in the form of Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B) of the Collateral Annex. Party A shall pay to Party B in accordance with the terms of the Collateral Annex the amount of interest it receives from the Qualified Institution on any Performance Assurance in the form of Cash posted by Party B.
- X Party A shall be entitled to hold Performance Assurance in the form of Cash provided that the following conditions are satisfied: (1) it is not a ~~Defaulting Party~~ subject to an Event of Default or Potential Event of Default, (2) a Downgrade Event has not occurred with respect to ~~Party A~~ Party A's guarantor, and (3) Cash shall be held only in any jurisdiction within the United States. To the extent Party A is entitled to hold Cash, the Interest Rate payable to Party B on Cash shall be as selected below:

Party A Interest Rate.

- X Federal Funds Effective Rate - the rate for that day opposite the caption "Federal Funds (Effective)" as set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.
- Other - _____

B. Party B Eligibility to Hold Cash.

- Party B shall not be entitled to hold Performance Assurance in the form of Cash. Performance Assurance in the form of Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B) of the Collateral Annex. Party B shall pay to Party A in accordance with the terms of the Collateral Annex the amount of interest it receives from the Qualified Institution on any Performance Assurance in the form of Cash posted by Party A.
- X Party B shall be entitled to hold Performance Assurance in the form of Cash provided that the following conditions are satisfied: (1) it is not subject to an Event of Default or Potential Event of Default ~~Defaulting Party~~, (2) a Downgrade Event has not occurred with respect

to ~~Party B~~ Party B's guarantor], and (3) Cash shall be held only in any jurisdiction within the United States. To the extent Party B is entitled to hold Cash, the Interest Rate payable to Party A on Cash shall be as selected below:

Party B Interest Rate.

- X Federal Funds Effective Rate - the rate for that day opposite the caption "Federal Funds (Effective)" as set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.
- Other - _____

VII. Notification Time.

- Other - 10:00 AM, Eastern Time

VIII. General.

With respect to the Collateral Threshold, Independent Amount, Minimum Transfer Amount and Rounding Amount, if no selection is made in this Cover Sheet with respect to a Party, then the applicable amount in each case for such Party shall be zero (0). In addition, with respect to the "Administration of Cash Collateral" section of this Paragraph 10, if no selection is made with respect to a Party, then such Party shall not be entitled to hold Performance Assurance in the form of Cash and such Cash, if any, shall be held in a Qualified Institution pursuant to Paragraph 6(a)(ii)(B) of the Collateral Annex. If a Party is eligible to hold Cash pursuant to a selection in this Paragraph 10 but no Interest Rate is selected, then the Interest Rate for such Party shall be the Federal Funds Effective Rate as defined in Section VI of this Paragraph 10.

IX. Collateral Annex Amendments

A. Definitions

- ~~"Credit Rating" shall be deleted in its entirety and replaced with the following:
"Credit Rating" shall have the meaning ascribed to it in the Master Agreement Cover Sheet."~~
- "Letter of Credit" shall be deleted in its entirety and replaced with the following:
"Letter of Credit" shall have the meaning ascribed to it in the Master Agreement Cover Sheet."
- "Credit Rating Event" shall be amended by replacing "6(a)(iii)" with "6(a)(ii)".
- "Downgraded Party" shall be amended by replacing "6(a)(i)" with "6(a)(ii)".
- "Letter of Credit Default" shall be amended by deleting "or" in the third line and replacing it with "and".
- "Performance Assurance" shall be amended by replacing "6(a)(iv)" with "6(a)(iii)".
- "Secured Party" shall be amended by replacing "3(b)" with "3(a)".
- "Qualified Institution" shall be deleted in its entirety and replaced with the following:
"Qualified Institution" means a commercial bank or trust company or financial institution, in each

case not affiliated with either Party A or Party B, organized under the laws of the United States or a political subdivision thereof, with (i) a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, and (ii) having assets of at least \$10,000,000,000; or, as it relates to Party A, the Cooperative Finance Corporation, CoBank and the Rural Utilities Service."

- "Reference Market-Maker" shall be amended by adding the following phrase at the end thereof: "; provided, however, such leading dealers shall not be Party A or Party B or Affiliates of Party A or Party B".

B. General Amendments

- The opening paragraph shall be amended by replacing "Paragraph 10 Elections" with "Paragraph 10 Cover Sheet".
- For purposes of the Collateral Annex, "setoff", "set off" and "offset" shall have the same meaning.
- Paragraph 2, "Encumbrance; Grant of Security Interest", shall be amended by adding the following language as the last sentence thereof:

"Notwithstanding any language to the contrary in this Paragraph 2, the Parties recognize that Party A's assets are subject to certain mortgages and other debt agreements, including with the Cooperative Finance Corporation, CoBank and Rural Utilities Service. This section shall not be read to require Party A to act inconsistently with its obligations under such mortgages and other debt agreements and Party A shall not be deemed to be in breach of this Master Agreement by virtue of its compliance with the requirements of its mortgage and debt agreements."

- Paragraph 3(b)(2) shall be amended by inserting "that has not been returned to the Pledging Party pursuant to this Collateral Annex" after the phrase "the Secured Party" in the first line.
- Paragraph 5(a) shall be amended by deleting "before the Notification Time on a Business Day" and replacing it with "before the Notification Time on a Local Business Day"; and by inserting "so long as the amount of the requested reduction is equal to or greater than the Minimum Transfer Amount" after "the Pledging Party for the benefit of the Secured Party" in the third line thereof.
- Paragraph 6(a)(ii)(A) is amended by inserting "(other than subparagraph (B) below)" after "the provisions of this Paragraph 6(a)(ii)" in the first line thereof.
- Paragraph 6(a)(ii)(B) shall be amended by (1) replacing "on the next Local Business Day" with "on the third Local Business Day"; and (2) in the eleventh line, changing "Non-Downgraded Party" to "Downgraded Party". [NOTE: Under review by MSCG-Risk group]
- Paragraph 6(b)(i)(B) shall be amended by replacing "twenty (20)" with "ten (10)". Paragraph 6(a)(iii) ("Interest Payments on Cash") is amended so that all references therein to "the third Local Business Day" shall read "the fifth (5th) Local Business Day".
- Paragraph 6(b)(iii) shall be amended by replacing "first" in line three, with "second".
- Paragraph 7(a)(iv) shall be amended by inserting ", in a commercially reasonable manner," between "liquidate" and "any" in the first line.
- Paragraph 7(b) shall be deleted in its entirety.

- Paragraph 8(b) shall be amended in the first line by replacing “to be reduced by the Secured Party” with “to be reduced by the Pledging Party” immediately after “Performance Assurance”.
- Paragraph 8 is amended by inserting the following new subparagraph 8(c) at the end thereof:

• “(c) Each quotation from a Reference Market-maker will be for an amount, if any, that would be paid to the Party requesting the quotation (expressed as a negative number) or by the Party requesting the quotation (expressed as a positive number) in consideration of an agreement between such Party (taking into account this Collateral Annex and the existence of any Guarantor with respect to the obligations of such Party) and the quoting Reference Market-maker to enter into a transaction that would have the effect of preserving for the Party requesting the quotation the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the Parties in respect of such Transaction or group of Transactions. The costs of retaining Reference Market-makers for the purposes of this Paragraph 8 shall be borne equally by the Secured Party and the Pledging Party. The determination made by such Reference Market-makers shall be binding and conclusive on the Parties absent manifest error.”

IN WITNESS WHEREOF, the Parties have caused this Paragraph 10 the Collateral Annex the EEI Master Power Purchase and Sale Agreement to be executed as of the date first above written.

From: Ashley Welsh
To: [Michelle Herrman](#)
Subject: Letter of Credit Fee Clarification
Date: Wednesday, November 29, 2017 2:51:24 PM
Attachments: [image001.png](#)

Hi Michelle,

After Elaine and I got off the phone with you, we wanted to confirm the fee amounts we told you as they change from time to time.

Good news on the master letter of credit: the fee is 15 basis points annually.

The fee per letter of credit issuance under the master letter of credit is 75 basis points.

Thank you,
Ashley

~~~~~



**Ashley Welsh**

Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

**From:** Ashley Welsh  
**To:** [Michelle Herrman](#)  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement  
**Date:** Wednesday, January 10, 2018 3:50:14 PM  
**Attachments:** [image002.png](#)  
[image003.png](#)

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Hi Michelle,

Cash would be drawn from the line of credit to provide collateral if you went the line of credit route. The cost of the line of credit would be the prevailing interest rate at the time of the draw, in addition to the interest rate if it changed and the outstanding amount remained on the line. For example, CFC's line of credit interest rate changed to 3.00% from 2.75% on January 1, 2018. Even if the line of credit amount was drawn before the interest rate changed on January 1, 2018, the line would then have a 3.00% interest rate until the line was paid down or the interest rate amount changed again.

Yes, the benefit of the master letter of credit is the quick turnaround to issue a letter of credit with the associated cost of 75 basis points on an annual basis.

Thank you,  
Ashley



**Ashley Welsh**

Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

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**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Wednesday, January 10, 2018 3:25 PM  
**To:** Ashley Welsh  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Thank you.

If we needed to provide collateral we would draw cash from the line of credit ? Would the cost would be the prevailing interest rate for the line at that time of draw? Or would it allow for the quick turn around to produce a letter of credit and that associated cost would be 75 basis points on an annual basis?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



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**From:** Ashley Welsh [<mailto:Ashley.Welsh@nrucfc.coop>]  
**Sent:** Wednesday, January 10, 2018 3:13 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Hi Michelle,

Based on the most recent year end Form 7 data from 12/31/16, the maximum amount for a master letter of credit SKRECC would be eligible for is \$50 million.

SKRECC would qualify for the same amount for a line of credit as a master letter of credit, \$50 million. If you think the line of credit route would work better for this situation, we would set up a separate \$50 million line of credit facility and leave the separate \$15 million line of credit in place for working capital needs.

Thank you,  
Ashley



**Ashley Welsh**  
Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

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**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Wednesday, January 10, 2018 2:37 PM  
**To:** Ashley Welsh  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Thank you Ashley. I appreciate the detailed information. How would we be able to determine what the maximum amount we would be eligible to receive on a master letter of credit?

Additionally, reading the terms below, prompt the thought of utilizing a line of credit versus a master letter of credit. Collateral can be provided in the form of cash or a letter of credit. Would you believe that we could qualify for a larger line of credit, such as \$50 - \$75 million, versus our current \$15 million?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Ashley Welsh [<mailto:Ashley.Welsh@nrucfc.coop>]  
**Sent:** Wednesday, January 10, 2018 2:13 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Hi Michelle,

Thank you very much for the request letter to RUS.

Here are some terms of the Master Letter of Credit facility:

- The Master Letter of Credit facility is unsecured
- The term/maturity of the facility is up to 5 years from closing date
- The annual Master Letter of Credit facility fee, which is 15 basis points, will be charged upon closing and annually on the anniversary date. The facility fee is charged based on the full amount of the facility, regardless of the usage.
- The issuance fee for a letter of credit under the Master LOC is 75 basis points and will be charged at the issuance and annually on the anniversary date. If there is a need to amend a previously issued letter of credit, there would be an amendment fee of \$500.
- In the event of a draw, the Borrower will repay any draw within one year of the date of the draw. It will accrue interest at the standard CFC Line of Credit Rate and earn patronage capital.

To answer your question, the Master Letter of Credit would not be supported by a line of credit, but if the Master Letter of Credit facility exceeds 23 months, our legal department would deem PSC approval necessary to clear CFC loan documents and put the facility in place.

As always, please feel free to reach out with any questions.

Thank you,  
Ashley



**Ashley Welsh**

Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]

**Sent:** Wednesday, January 10, 2018 9:16 AM

**To:** Ashley Welsh

**Subject:** Notification of Request for RUS approval of Purchase Power Agreement

Hi Ashley,

I wanted to let you know that we have signed our agreement for the Purchase of 58 MW of power. I am forwarding to you our request for approval that was sent to RUS on Friday. Please let me know if you have any questions.

I would also like to talk more fully about the letter of credit requirements. Our contract does not go into effect until 2019, so we do have some time to work on this, but it would be helpful to know what CFC would require. Would the Master letter of Credit need to be supported in some way by a line of credit? I ask because we would need to get PSC approval for a line of credit that would exceed more than 24 months.

Thank you.

Michelle D. Herrman, CPA, PHR

Vice President of Finance

Office: 606-451-4337





**From:** Ashley Welsh  
**To:** [Michelle Herrman](#)  
**Cc:** [Elaine MacDonald](#)  
**Subject:** RE: Collateral Information From SKRECC KY 054  
**Date:** Wednesday, November 29, 2017 10:41:45 AM

---

Hi Michelle,

Given that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average is good news for SKRECC as the average for both ratios is higher than 2.00.

We have worked with other cooperatives that have made energy purchases away from the traditional G&T model, but in those cases, the collateral requirement (i.e. letter of credit) has been a defined amount which has been set at the start, rather than the situation that you've detailed.

SKRECC has a solid financial profile. If CFC needed to provide a letter of credit as collateral assurance, we would need to follow and complete our standard credit underwriting and approval process. We'd also need action by the SKRECC Board of Directors via a Resolution.

The other item to keep in mind - depending on the amount of the letter of credit, there's a possibility that RUS consent for additional unsecured indebtedness would also be needed. SKRECC would need to build enough time to allow for these events to take place.

I hope this helps provide some clarity - please don't hesitate to let us know if you have further questions.

Thank you,  
Ashley

~~~~~  
Ashley Welsh
Associate Vice President

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652
Email: Ashley.Welsh@nrucfc.coop

-----Original Message-----

From: Michelle Herrman [<mailto:michelleh@skrecc.com>]
Sent: Tuesday, November 28, 2017 3:50 PM
To: Ashley Welsh; Elaine MacDonald
Subject: Collateral Information From SKRECC KY 054

Ashley and Elaine,

I am forwarding the current contract language regarding Collateral in connection with the purchase power agreement that we are considering.

The potential contract is a 20 year contract to purchase 58 MW of power per year.

My interpretation of the collateral needed was incorrect in our last discussion. The calculation of the Collateral

requirement is based upon the attached and the following definition:

On any Calculation Date, The "Exposure Amount" for each Party shall be calculated for all Transactions for which there are any Obligations remaining unpaid or unperformed, by calculating each Party's Exposure to the other Party in respect of each such Transaction and determining the net aggregate sum of all Exposures for all Transactions for each Party. The Party having the greater Exposure Amount at any time (the "Secured Party") shall be deemed to have a "Net Exposure" to the other Party equal to the Secured Party's Exposure Amount.

The "Collateral Requirement" for a Party (the Pledging Party) means the Secured Party's Net Exposure minus the sum of :

- 1- The Pledging Party's Collateral Threshold; plus
- 2- the amount of Cash previously Transferred to the Secured Party, the amount of Cash held by the Secured Party as Performance Assurance as a result of drawing under any Letter of Credit, and any Interest Amount that has not yet been Transferred to the Pledging Party; plus
- 3- the Collateral Value of each Letter of Credit and any other form of Performance Assurance (other than Cash) maintained by the Pledging Party for the benefit of the Secured Party; provided, however, that the Collateral Requirement of a Party's Collateral Requirement yields a number less than zero.

It is now my basic understanding that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average.

If the credit event trigger were to occur, the collateral requirement would be calculated at that time. Basic calculation would be the dollar amount that the market currently bears for the energy (say ██████ MWh versus our contract cost of say ██████ MWh). The \$2 difference per MWh would be the basis for the collateral calculation. This times the number of MWh's remaining for the contract less the collateral threshold would be the collateral requirement.

So at this time it would be hard to gauge how much a letter of credit would need to be. Perhaps you might have some advice on what you may have done with other cooperatives that have made energy purchases away from the traditional G&T model. Do you see any challenges on CFC's part to be able to provide a letter of credit to us, if the situation arose or if there was a long term requirement?

I appreciate your assistance.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337

-----Original Message-----

From: Toshiba fax [<mailto:Toshiba6530cAcct@skrecc.com>]
Sent: Tuesday, November 28, 2017 10:33 AM
To: Michelle Herrman <michelleh@skrecc.com>
Subject: Send data from MFP11801996 11/28/2017 10:33

Scanned from MFP11801996
Date:11/28/2017 10:33
Pages:9
Resolution:200x200 DPI

From: [Michelle Herrman](#)
To: [Ashley Welsh](#)
Subject: RE: Letter of Credit Fee Clarification
Date: Wednesday, November 29, 2017 2:57:00 PM
Attachments: [image002.png](#)
[image003.png](#)

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: Ashley Welsh [mailto:Ashley.Welsh@nrucfc.coop]
Sent: Wednesday, November 29, 2017 2:51 PM
To: Michelle Herrman <michelleh@skrecc.com>
Subject: Letter of Credit Fee Clarification

Hi Michelle,

After Elaine and I got off the phone with you, we wanted to confirm the fee amounts we told you as they change from time to time.

Good news on the master letter of credit: the fee is 15 basis points annually.

The fee per letter of credit issuance under the master letter of credit is 75 basis points.

Thank you,
Ashley



Ashley Welsh
Associate Vice President

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652

Email: Ashley.Welsh@nrucfc.coop

From: Elaine MacDonald
To: [Michelle Herrman](#)
Cc: [Ashley Welsh](#)
Subject: RE: Master Letter of Credit
Date: Friday, December 15, 2017 5:09:07 PM
Attachments: [image005.png](#)
[image006.png](#)
[image002.png](#)

Hi Michelle,

We could certainly look at a higher level (would require more approvals, etc.). What we'd need to be able to do (and I know you'll have the detail) is explain the basis for the amounts, etc.

Again – we can't commit to anything at this point, but we can continue to talk. What I did just now is run the unsecured debt limit calculation (RUS requirement), and the good news is based on the 12/31/2016 Form 7 detail, you wouldn't need their consent related to unsecured indebtedness. Not entirely sure whether you'd need RUS consent to enter into the power contract, but we can talk about that as well.

Hope this helps,

Elaine

~~~~~



**Elaine MacDonald**

Associate Vice President/Senior Lender

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1883  
Toll-free: 800-424-2954

[www.nrucfc.coop](http://www.nrucfc.coop)

---

**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Friday, December 15, 2017 4:49 PM  
**To:** Elaine MacDonald  
**Cc:** Ashley Welsh  
**Subject:** RE: Master Letter of Credit

Yes it does. Our collateral need will fluctuate during the course of the contract we are considering. It might be that we may need a bit more for the master letter of credit in the early years of our contract, perhaps \$60- \$70 million. And while the Master letter of credit would be of the higher

level, we anticipate the actual letter issued would be much smaller.

Are the higher levels doable, just take more approvals to get approved?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Elaine MacDonald [<mailto:Elaine.MacDonald@nrucfc.coop>]  
**Sent:** Friday, December 15, 2017 4:26 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Cc:** Ashley Welsh <[Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)>  
**Subject:** RE: Master Letter of Credit

Hi Michelle,

Sorry for the delay in getting back to you – I've been in back to back meetings.

Pulled down the data from the 2016 Form 7 - if we looked at an amount of up to \$45 million does that help clarify?

Obviously, we don't have final approvals/signoffs, but that seems to be an amount that we could approve internally (no CFC Board action), and we'd need to complete full due diligence and underwriting so we could support the amount.

Don't know if this totally answers your question, but I'm hoping it's a start.

Thanks!

Elaine

~~~~~



Elaine MacDonald
Associate Vice President/Senior Lender

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166

Office: 703-467-1883
Toll-free: 800-424-2954

www.nrucfc.coop

From: Michelle Herrman [<mailto:michelleh@skrecc.com>]
Sent: Friday, December 15, 2017 1:32 PM
To: Elaine MacDonald
Subject: FW: Master Letter of Credit

Hi Elaine,

I have some more questions regarding the Master Letter of Credit. Is there a possibility that CFC would be able to calculate what the maximum amount range SKRECC would be able to be granted on a master letter of credit?

We continue to work through our purchase power agreement, and the collateral piece is the main area of focus currently. If you can provide any idea to the amount that we might qualify for based upon our previously filed financial statements, I would appreciate it. If it is involved I understand, just wanted to ask.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: [Michelle Herrman](#)
To: [Ashley Welsh](#); [Elaine MacDonald](#)
Subject: Collateral Information From SKRECC KY 054
Date: Tuesday, November 28, 2017 3:50:00 PM
Attachments: [DOC112817-11282017103254.pdf](#)

Ashley and Elaine,

I am forwarding the current contract language regarding Collateral in connection with the purchase power agreement that we are considering.

The potential contract is a 20 year contract to purchase 58 MW of power per year.

My interpretation of the collateral needed was incorrect in our last discussion. The calculation of the Collateral requirement is based upon the attached and the following definition:

On any Calculation Date, The "Exposure Amount" for each Party shall be calculated for all Transactions for which there are any Obligations remaining unpaid or unperformed, by calculating each Party's Exposure to the other Party in respect of each such Transaction and determining the net aggregate sum of all Exposures for all Transactions for each Party. The Party having the greater Exposure Amount at any time (the "Secured Party") shall be deemed to have a "Net Exposure" to the other Party equal to the Secured Party's Exposure Amount.

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It is now my basic understanding that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average.

If the credit event trigger were to occur, the collateral requirement would be calculated at that time. Basic calculation would be the dollar amount that the market currently bears for the energy (say █████ MWh versus our contract cost of say █████ MWh). The \$2 difference per MWh would be the basis for the collateral calculation. This times the number of MWh's remaining for the contract less the collateral threshold would be the collateral requirement.

So at this time it would be hard to gauge how much a letter of credit would need to be. Perhaps you might have some advice on what you may have done with other cooperatives that have made energy purchases away from the traditional G&T model. Do you see any challenges on CFC's part to be able to provide a letter of credit to us, if the situation arose or if there was a long term requirement?

I appreciate your assistance.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337

-----Original Message-----

From: Toshiba fax [<mailto:Toshiba6530cAcct@skrecc.com>]

Sent: Tuesday, November 28, 2017 10:33 AM

To: Michelle Herrman <michelleh@skrecc.com>

Subject: Send data from MFP11801996 11/28/2017 10:33

Scanned from MFP11801996

Date:11/28/2017 10:33

Pages:9

Resolution:200x200 DPI

From: [Michelle Herrman](#)
To: [Ashley Welsh](#); [Elaine MacDonald](#)
Subject: Collateral Information From SKRECC KY 054
Date: Tuesday, November 28, 2017 3:50:00 PM
Attachments: [DOC112817-11282017103254.pdf](#)

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I appreciate your assistance.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
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To: Michelle Herrman <michelleh@skrecc.com>

Subject: Send data from MFP11801996 11/28/2017 10:33

Scanned from MFP11801996

Date:11/28/2017 10:33

Pages:9

Resolution:200x200 DPI

From: Ashley Welsh
To: [Michelle Herrman](#)
Subject: Letter of Credit Fee Clarification
Date: Wednesday, November 29, 2017 2:51:24 PM
Attachments: [image001.png](#)

Hi Michelle,

After Elaine and I got off the phone with you, we wanted to confirm the fee amounts we told you as they change from time to time.

Good news on the master letter of credit: the fee is 15 basis points annually.

The fee per letter of credit issuance under the master letter of credit is 75 basis points.

Thank you,
Ashley



Ashley Welsh

Associate Vice President

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652
Email: Ashley.Welsh@nrucfc.coop

From: Ashley Welsh
To: [Michelle Herrman](#)
Subject: RE: Notification of Request for RUS approval of Purchase Power Agreement
Date: Wednesday, January 10, 2018 3:50:14 PM
Attachments: [image002.png](#)
[image003.png](#)

Hi Michelle,

Cash would be drawn from the line of credit to provide collateral if you went the line of credit route. The cost of the line of credit would be the prevailing interest rate at the time of the draw, in addition to the interest rate if it changed and the outstanding amount remained on the line. For example, CFC's line of credit interest rate changed to 3.00% from 2.75% on January 1, 2018. Even if the line of credit amount was drawn before the interest rate changed on January 1, 2018, the line would then have a 3.00% interest rate until the line was paid down or the interest rate amount changed again.

Yes, the benefit of the master letter of credit is the quick turnaround to issue a letter of credit with the associated cost of 75 basis points on an annual basis.

Thank you,
Ashley



Ashley Welsh

Associate Vice President

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652
Email: Ashley.Welsh@nrucfc.coop

From: Michelle Herrman [mailto:michelleh@skrecc.com]
Sent: Wednesday, January 10, 2018 3:25 PM
To: Ashley Welsh
Subject: RE: Notification of Request for RUS approval of Purchase Power Agreement

Thank you.

If we needed to provide collateral we would draw cash from the line of credit ? Would the cost would be the prevailing interest rate for the line at that time of draw? Or would it allow for the quick turn around to produce a letter of credit and that associated cost would be 75 basis points on an annual basis?

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: Ashley Welsh [<mailto:Ashley.Welsh@nrucfc.coop>]
Sent: Wednesday, January 10, 2018 3:13 PM
To: Michelle Herrman <michelleh@skrecc.com>
Subject: RE: Notification of Request for RUS approval of Purchase Power Agreement

Hi Michelle,

Based on the most recent year end Form 7 data from 12/31/16, the maximum amount for a master letter of credit SKRECC would be eligible for is \$50 million.

SKRECC would qualify for the same amount for a line of credit as a master letter of credit, \$50 million. If you think the line of credit route would work better for this situation, we would set up a separate \$50 million line of credit facility and leave the separate \$15 million line of credit in place for working capital needs.

Thank you,
Ashley



Ashley Welsh
Associate Vice President

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652
Email: Ashley.Welsh@nrucfc.coop

From: Michelle Herrman [<mailto:michelleh@skrecc.com>]
Sent: Wednesday, January 10, 2018 2:37 PM
To: Ashley Welsh
Subject: RE: Notification of Request for RUS approval of Purchase Power Agreement

Thank you Ashley. I appreciate the detailed information. How would we be able to determine what the maximum amount we would be eligible to receive on a master letter of credit?

Additionally, reading the terms below, prompt the thought of utilizing a line of credit versus a master letter of credit. Collateral can be provided in the form of cash or a letter of credit. Would you believe that we could qualify for a larger line of credit, such as \$50 - \$75 million, versus our current \$15 million?

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: Ashley Welsh [<mailto:Ashley.Welsh@nrucfc.coop>]
Sent: Wednesday, January 10, 2018 2:13 PM
To: Michelle Herrman <michelleh@skrecc.com>
Subject: RE: Notification of Request for RUS approval of Purchase Power Agreement

Hi Michelle,

Thank you very much for the request letter to RUS.

Here are some terms of the Master Letter of Credit facility:

- The Master Letter of Credit facility is unsecured
- The term/maturity of the facility is up to 5 years from closing date
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- In the event of a draw, the Borrower will repay any draw within one year of the date of the draw. It will accrue interest at the standard CFC Line of Credit Rate and earn patronage capital.

To answer your question, the Master Letter of Credit would not be supported by a line of credit, but if the Master Letter of Credit facility exceeds 23 months, our legal department would deem PSC approval necessary to clear CFC loan documents and put the facility in place.

As always, please feel free to reach out with any questions.

Thank you,
Ashley



Ashley Welsh

Associate Vice President

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Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652
Email: Ashley.Welsh@nrucfc.coop

From: Michelle Herrman [<mailto:michelleh@skrecc.com>]

Sent: Wednesday, January 10, 2018 9:16 AM

To: Ashley Welsh

Subject: Notification of Request for RUS approval of Purchase Power Agreement

Hi Ashley,

I wanted to let you know that we have signed our agreement for the Purchase of 58 MW of power. I am forwarding to you our request for approval that was sent to RUS on Friday. Please let me know if you have any questions.

I would also like to talk more fully about the letter of credit requirements. Our contract does not go into effect until 2019, so we do have some time to work on this, but it would be helpful to know what CFC would require. Would the Master letter of Credit need to be supported in some way by a line of credit? I ask because we would need to get PSC approval for a line of credit that would exceed more than 24 months.

Thank you.

Michelle D. Herrman, CPA, PHR

Vice President of Finance

Office: 606-451-4337



From: Ashley Welsh
To: [Michelle Herrman](#)
Cc: [Elaine MacDonald](#)
Subject: RE: Collateral Information From SKRECC KY 054
Date: Wednesday, November 29, 2017 10:41:45 AM

Hi Michelle,

Given that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average is good news for SKRECC as the average for both ratios is higher than 2.00.

We have worked with other cooperatives that have made energy purchases away from the traditional G&T model, but in those cases, the collateral requirement (i.e. letter of credit) has been a defined amount which has been set at the start, rather than the situation that you've detailed.

SKRECC has a solid financial profile. If CFC needed to provide a letter of credit as collateral assurance, we would need to follow and complete our standard credit underwriting and approval process. We'd also need action by the SKRECC Board of Directors via a Resolution.

The other item to keep in mind - depending on the amount of the letter of credit, there's a possibility that RUS consent for additional unsecured indebtedness would also be needed. SKRECC would need to build enough time to allow for these events to take place.

I hope this helps provide some clarity - please don't hesitate to let us know if you have further questions.

Thank you,
Ashley

~~~~~  
Ashley Welsh  
Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

-----Original Message-----

From: Michelle Herrman [<mailto:michelleh@skrecc.com>]  
Sent: Tuesday, November 28, 2017 3:50 PM  
To: Ashley Welsh; Elaine MacDonald  
Subject: Collateral Information From SKRECC KY 054

Ashley and Elaine,

I am forwarding the current contract language regarding Collateral in connection with the purchase power agreement that we are considering.

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My interpretation of the collateral needed was incorrect in our last discussion. The calculation of the Collateral

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On any Calculation Date, The "Exposure Amount" for each Party shall be calculated for all Transactions for which there are any Obligations remaining unpaid or unperformed, by calculating each Party's Exposure to the other Party in respect of each such Transaction and determining the net aggregate sum of all Exposures for all Transactions for each Party. The Party having the greater Exposure Amount at any time (the "Secured Party") shall be deemed to have a "Net Exposure" to the other Party equal to the Secured Party's Exposure Amount.

The "Collateral Requirement" for a Party (the Pledging Party) means the Secured Party's Net Exposure minus the sum of :

- 1- The Pledging Party's Collateral Threshold; plus
- 2- the amount of Cash previously Transferred to the Secured Party, the amount of Cash held by the Secured Party as Performance Assurance as a result of drawing under any Letter of Credit, and any Interest Amount that has not yet been Transferred to the Pledging Party; plus
- 3- the Collateral Value of each Letter of Credit and any other form of Performance Assurance (other than Cash) maintained by the Pledging Party for the benefit of the Secured Party; provided, however, that the Collateral Requirement of a Party's Collateral Requirement yields a number less than zero.

It is now my basic understanding that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average.

If the credit event trigger were to occur, the collateral requirement would be calculated at that time. Basic calculation would be the dollar amount that the market currently bears for the energy (say █████ MWh versus our contract cost of say █████ MWh). The \$2 difference per MWh would be the basis for the collateral calculation. This times the number of MWh's remaining for the contract less the collateral threshold would be the collateral requirement.

So at this time it would be hard to gauge how much a letter of credit would need to be. Perhaps you might have some advice on what you may have done with other cooperatives that have made energy purchases away from the traditional G&T model. Do you see any challenges on CFC's part to be able to provide a letter of credit to us, if the situation arose or if there was a long term requirement?

I appreciate your assistance.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337

-----Original Message-----

From: Toshiba fax [<mailto:Toshiba6530cAcct@skrecc.com>]  
Sent: Tuesday, November 28, 2017 10:33 AM  
To: Michelle Herrman <michelleh@skrecc.com>  
Subject: Send data from MFP11801996 11/28/2017 10:33

Scanned from MFP11801996  
Date:11/28/2017 10:33  
Pages:9  
Resolution:200x200 DPI  
-----

**From:** [Michelle Herrman](#)  
**To:** [Ashley Welsh](#)  
**Subject:** RE: Letter of Credit Fee Clarification  
**Date:** Wednesday, November 29, 2017 2:57:00 PM  
**Attachments:** [image002.png](#)  
[image003.png](#)

---

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Ashley Welsh [mailto:[Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)]  
**Sent:** Wednesday, November 29, 2017 2:51 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** Letter of Credit Fee Clarification

Hi Michelle,

After Elaine and I got off the phone with you, we wanted to confirm the fee amounts we told you as they change from time to time.

Good news on the master letter of credit: the fee is 15 basis points annually.

The fee per letter of credit issuance under the master letter of credit is 75 basis points.

Thank you,  
Ashley



**Ashley Welsh**  
Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652

Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

**From:** Elaine MacDonald  
**To:** [Michelle Herrman](#)  
**Cc:** [Ashley Welsh](#)  
**Subject:** RE: Master Letter of Credit  
**Date:** Friday, December 15, 2017 5:09:07 PM  
**Attachments:** [image005.png](#)  
[image006.png](#)  
[image002.png](#)

---

Hi Michelle,

We could certainly look at a higher level (would require more approvals, etc.). What we'd need to be able to do (and I know you'll have the detail) is explain the basis for the amounts, etc.

Again – we can't commit to anything at this point, but we can continue to talk. What I did just now is run the unsecured debt limit calculation (RUS requirement), and the good news is based on the 12/31/2016 Form 7 detail, you wouldn't need their consent related to unsecured indebtedness. Not entirely sure whether you'd need RUS consent to enter into the power contract, but we can talk about that as well.

Hope this helps,

Elaine

~~~~~



Elaine MacDonald
Associate Vice President/Senior Lender

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1883
Toll-free: 800-424-2954

www.nrucfc.coop

From: Michelle Herrman [mailto:michelleh@skrecc.com]
Sent: Friday, December 15, 2017 4:49 PM
To: Elaine MacDonald
Cc: Ashley Welsh
Subject: RE: Master Letter of Credit

Yes it does. Our collateral need will fluctuate during the course of the contract we are considering. It might be that we may need a bit more for the master letter of credit in the early years of our contract, perhaps \$60- \$70 million. And while the Master letter of credit would be of the higher

level, we anticipate the actual letter issued would be much smaller.

Are the higher levels doable, just take more approvals to get approved?

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: Elaine MacDonald [<mailto:Elaine.MacDonald@nrucfc.coop>]
Sent: Friday, December 15, 2017 4:26 PM
To: Michelle Herrman <michelleh@skrecc.com>
Cc: Ashley Welsh <Ashley.Welsh@nrucfc.coop>
Subject: RE: Master Letter of Credit

Hi Michelle,

Sorry for the delay in getting back to you – I’ve been in back to back meetings.

Pulled down the data from the 2016 Form 7 - if we looked at an amount of up to \$45 million does that help clarify?

Obviously, we don’t have final approvals/signoffs, but that seems to be an amount that we could approve internally (no CFC Board action), and we’d need to complete full due diligence and underwriting so we could support the amount.

Don’t know if this totally answers your question, but I’m hoping it’s a start.

Thanks!

Elaine

~~~~~



**Elaine MacDonald**  
Associate Vice President/Senior Lender

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Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166

Office: 703-467-1883  
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[www.nrucfc.coop](http://www.nrucfc.coop)

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Friday, December 15, 2017 1:32 PM  
**To:** Elaine MacDonald  
**Subject:** FW: Master Letter of Credit

Hi Elaine,

I have some more questions regarding the Master Letter of Credit. Is there a possibility that CFC would be able to calculate what the maximum amount range SKRECC would be able to be granted on a master letter of credit?

We continue to work through our purchase power agreement, and the collateral piece is the main area of focus currently. If you can provide any idea to the amount that we might qualify for based upon our previously filed financial statements, I would appreciate it. If it is involved I understand, just wanted to ask.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



**From:** Ashley Welsh  
**To:** [Michelle Herrman](#)  
**Subject:** Letter of Credit Fee Clarification  
**Date:** Wednesday, November 29, 2017 2:51:24 PM  
**Attachments:** [image001.png](#)

---

Hi Michelle,

After Elaine and I got off the phone with you, we wanted to confirm the fee amounts we told you as they change from time to time.

Good news on the master letter of credit: the fee is 15 basis points annually.

The fee per letter of credit issuance under the master letter of credit is 75 basis points.

Thank you,  
Ashley



**Ashley Welsh**

Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)



**From:** Ashley Welsh  
**To:** [Michelle Herrman](#)  
**Cc:** [Elaine MacDonald](#)  
**Subject:** RE: Collateral Information From SKRECC KY 054  
**Date:** Wednesday, November 29, 2017 10:41:45 AM

---

Hi Michelle,

Given that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average is good news for SKRECC as the average for both ratios is higher than 2.00.

We have worked with other cooperatives that have made energy purchases away from the traditional G&T model, but in those cases, the collateral requirement (i.e. letter of credit) has been a defined amount which has been set at the start, rather than the situation that you've detailed.

SKRECC has a solid financial profile. If CFC needed to provide a letter of credit as collateral assurance, we would need to follow and complete our standard credit underwriting and approval process. We'd also need action by the SKRECC Board of Directors via a Resolution.

The other item to keep in mind - depending on the amount of the letter of credit, there's a possibility that RUS consent for additional unsecured indebtedness would also be needed. SKRECC would need to build enough time to allow for these events to take place.

I hope this helps provide some clarity - please don't hesitate to let us know if you have further questions.

Thank you,  
Ashley

~~~~~  
Ashley Welsh
Associate Vice President

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652
Email: Ashley.Welsh@nrucfc.coop

-----Original Message-----

From: Michelle Herrman [<mailto:michelleh@skrecc.com>]
Sent: Tuesday, November 28, 2017 3:50 PM
To: Ashley Welsh; Elaine MacDonald
Subject: Collateral Information From SKRECC KY 054

Ashley and Elaine,

I am forwarding the current contract language regarding Collateral in connection with the purchase power agreement that we are considering.

The potential contract is a 20 year contract to purchase 58 MW of power per year.

My interpretation of the collateral needed was incorrect in our last discussion. The calculation of the Collateral

requirement is based upon the attached and the following definition:

On any Calculation Date, The "Exposure Amount" for each Party shall be calculated for all Transactions for which there are any Obligations remaining unpaid or unperformed, by calculating each Party's Exposure to the other Party in respect of each such Transaction and determining the net aggregate sum of all Exposures for all Transactions for each Party. The Party having the greater Exposure Amount at any time (the "Secured Party") shall be deemed to have a "Net Exposure" to the other Party equal to the Secured Party's Exposure Amount.

The "Collateral Requirement" for a Party (the Pledging Party) means the Secured Party's Net Exposure minus the sum of :

- 1- The Pledging Party's Collateral Threshold; plus
- 2- the amount of Cash previously Transferred to the Secured Party, the amount of Cash held by the Secured Party as Performance Assurance as a result of drawing under any Letter of Credit, and any Interest Amount that has not yet been Transferred to the Pledging Party; plus
- 3- the Collateral Value of each Letter of Credit and any other form of Performance Assurance (other than Cash) maintained by the Pledging Party for the benefit of the Secured Party; provided, however, that the Collateral Requirement of a Party's Collateral Requirement yields a number less than zero.

It is now my basic understanding that the collateral requirement only would be activated in a "credit event" defined for us as a TIER of less than 1.25 given the high 2 of 3 year average or a DSC of less than 1.25 given the high 2 of 3 year average.

If the credit event trigger were to occur, the collateral requirement would be calculated at that time. Basic calculation would be the dollar amount that the market currently bears for the energy (say ██████ MWh versus our contract cost of say ██████ MWh). The \$2 difference per MWh would be the basis for the collateral calculation. This times the number of MWh's remaining for the contract less the collateral threshold would be the collateral requirement.

So at this time it would be hard to gauge how much a letter of credit would need to be. Perhaps you might have some advice on what you may have done with other cooperatives that have made energy purchases away from the traditional G&T model. Do you see any challenges on CFC's part to be able to provide a letter of credit to us, if the situation arose or if there was a long term requirement?

I appreciate your assistance.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337

-----Original Message-----

From: Toshiba fax [<mailto:Toshiba6530cAcct@skrecc.com>]
Sent: Tuesday, November 28, 2017 10:33 AM
To: Michelle Herrman <michelleh@skrecc.com>
Subject: Send data from MFP11801996 11/28/2017 10:33

Scanned from MFP11801996
Date:11/28/2017 10:33
Pages:9
Resolution:200x200 DPI

From: [Michelle Herrman](#)
To: [Ashley Welsh](#)
Subject: RE: Letter of Credit Fee Clarification
Date: Wednesday, November 29, 2017 2:57:00 PM
Attachments: [image002.png](#)
[image003.png](#)

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: Ashley Welsh [mailto:Ashley.Welsh@nrucfc.coop]
Sent: Wednesday, November 29, 2017 2:51 PM
To: Michelle Herrman <michelleh@skrecc.com>
Subject: Letter of Credit Fee Clarification

Hi Michelle,

After Elaine and I got off the phone with you, we wanted to confirm the fee amounts we told you as they change from time to time.

Good news on the master letter of credit: the fee is 15 basis points annually.

The fee per letter of credit issuance under the master letter of credit is 75 basis points.

Thank you,
Ashley



Ashley Welsh
Associate Vice President

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166
Office: 703-467-1845 or toll-free 800-424-2954
Fax: 703-467-5652

Email: Ashley.Welsh@nrucfc.coop

From: Elaine MacDonald
To: [Michelle Herrman](#)
Cc: [Ashley Welsh](#)
Subject: RE: Master Letter of Credit
Date: Friday, December 15, 2017 5:09:07 PM
Attachments: [image005.png](#)
[image006.png](#)
[image002.png](#)

Hi Michelle,

We could certainly look at a higher level (would require more approvals, etc.). What we'd need to be able to do (and I know you'll have the detail) is explain the basis for the amounts, etc.

Again – we can't commit to anything at this point, but we can continue to talk. What I did just now is run the unsecured debt limit calculation (RUS requirement), and the good news is based on the 12/31/2016 Form 7 detail, you wouldn't need their consent related to unsecured indebtedness. Not entirely sure whether you'd need RUS consent to enter into the power contract, but we can talk about that as well.

Hope this helps,

Elaine

~~~~~



**Elaine MacDonald**

Associate Vice President/Senior Lender

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Cooperative Finance Corporation  
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Dulles, VA 20166  
Office: 703-467-1883  
Toll-free: 800-424-2954

[www.nrucfc.coop](http://www.nrucfc.coop)

---

**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Friday, December 15, 2017 4:49 PM  
**To:** Elaine MacDonald  
**Cc:** Ashley Welsh  
**Subject:** RE: Master Letter of Credit

Yes it does. Our collateral need will fluctuate during the course of the contract we are considering. It might be that we may need a bit more for the master letter of credit in the early years of our contract, perhaps \$60- \$70 million. And while the Master letter of credit would be of the higher

level, we anticipate the actual letter issued would be much smaller.

Are the higher levels doable, just take more approvals to get approved?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Elaine MacDonald [<mailto:Elaine.MacDonald@nrucfc.coop>]  
**Sent:** Friday, December 15, 2017 4:26 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Cc:** Ashley Welsh <[Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)>  
**Subject:** RE: Master Letter of Credit

Hi Michelle,

Sorry for the delay in getting back to you – I've been in back to back meetings.

Pulled down the data from the 2016 Form 7 - if we looked at an amount of up to \$45 million does that help clarify?

Obviously, we don't have final approvals/signoffs, but that seems to be an amount that we could approve internally (no CFC Board action), and we'd need to complete full due diligence and underwriting so we could support the amount.

Don't know if this totally answers your question, but I'm hoping it's a start.

Thanks!

Elaine

~~~~~



Elaine MacDonald
Associate Vice President/Senior Lender

National Rural Utilities
Cooperative Finance Corporation
20701 Cooperative Way
Dulles, VA 20166

Office: 703-467-1883
Toll-free: 800-424-2954

www.nrucfc.coop

From: Michelle Herrman [<mailto:michelleh@skrecc.com>]
Sent: Friday, December 15, 2017 1:32 PM
To: Elaine MacDonald
Subject: FW: Master Letter of Credit

Hi Elaine,

I have some more questions regarding the Master Letter of Credit. Is there a possibility that CFC would be able to calculate what the maximum amount range SKRECC would be able to be granted on a master letter of credit?

We continue to work through our purchase power agreement, and the collateral piece is the main area of focus currently. If you can provide any idea to the amount that we might qualify for based upon our previously filed financial statements, I would appreciate it. If it is involved I understand, just wanted to ask.

Thank you.

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: [Michelle Herrman](#)
To: [Elaine MacDonald](#)
Cc: [Ashley Welsh](#)
Subject: RE: Master Letter of Credit
Date: Friday, December 15, 2017 4:48:00 PM
Attachments: [image001.png](#)
[image002.png](#)

Yes it does. Our collateral need will fluctuate during the course of the contract we are considering. It might be that we may need a bit more for the master letter of credit in the early years of our contract, perhaps \$60- \$70 million. And while the Master letter of credit would be of the higher level, we anticipate the actual letter issued would be much smaller.

Are the higher levels doable, just take more approvals to get approved?

Michelle D. Herrman, CPA, PHR
Vice President of Finance
Office: 606-451-4337



From: Elaine MacDonald [mailto:Elaine.MacDonald@nrucfc.coop]
Sent: Friday, December 15, 2017 4:26 PM
To: Michelle Herrman <michelleh@skrecc.com>
Cc: Ashley Welsh <Ashley.Welsh@nrucfc.coop>
Subject: RE: Master Letter of Credit

Hi Michelle,

Sorry for the delay in getting back to you – I've been in back to back meetings.

Pulled down the data from the 2016 Form 7 - if we looked at an amount of up to \$45 million does that help clarify?

Obviously, we don't have final approvals/signoffs, but that seems to be an amount that we could approve internally (no CFC Board action), and we'd need to complete full due diligence and underwriting so we could support the amount.

Don't know if this totally answers your question, but I'm hoping it's a start.

Thanks!

Elaine

~~~~~





**Elaine MacDonald**

Associate Vice President/Senior Lender

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Cooperative Finance Corporation  
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Dulles, VA 20166  
Office: 703-467-1883  
Toll-free: 800-424-2954

[www.nrucfc.coop](http://www.nrucfc.coop)

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]

**Sent:** Friday, December 15, 2017 1:32 PM

**To:** Elaine MacDonald

**Subject:** FW: Master Letter of Credit

Hi Elaine,

I have some more questions regarding the Master Letter of Credit. Is there a possibility that CFC would be able to calculate what the maximum amount range SKRECC would be able to be granted on a master letter of credit?

We continue to work through our purchase power agreement, and the collateral piece is the main area of focus currently. If you can provide any idea to the amount that we might qualify for based upon our previously filed financial statements, I would appreciate it. If it is involved I understand, just wanted to ask.

Thank you.

Michelle D. Herrman, CPA, PHR

Vice President of Finance

Office: 606-451-4337



**From:** Ashley Welsh  
**To:** [Michelle Herrman](#)  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement  
**Date:** Wednesday, January 10, 2018 3:50:14 PM  
**Attachments:** [image002.png](#)  
[image003.png](#)

---

Hi Michelle,

Cash would be drawn from the line of credit to provide collateral if you went the line of credit route. The cost of the line of credit would be the prevailing interest rate at the time of the draw, in addition to the interest rate if it changed and the outstanding amount remained on the line. For example, CFC's line of credit interest rate changed to 3.00% from 2.75% on January 1, 2018. Even if the line of credit amount was drawn before the interest rate changed on January 1, 2018, the line would then have a 3.00% interest rate until the line was paid down or the interest rate amount changed again.

Yes, the benefit of the master letter of credit is the quick turnaround to issue a letter of credit with the associated cost of 75 basis points on an annual basis.

Thank you,  
Ashley



**Ashley Welsh**

Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

---

**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Wednesday, January 10, 2018 3:25 PM  
**To:** Ashley Welsh  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Thank you.

If we needed to provide collateral we would draw cash from the line of credit ? Would the cost would be the prevailing interest rate for the line at that time of draw? Or would it allow for the quick turn around to produce a letter of credit and that associated cost would be 75 basis points on an annual basis?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Ashley Welsh [<mailto:Ashley.Welsh@nrucfc.coop>]  
**Sent:** Wednesday, January 10, 2018 3:13 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Hi Michelle,

Based on the most recent year end Form 7 data from 12/31/16, the maximum amount for a master letter of credit SKRECC would be eligible for is \$50 million.

SKRECC would qualify for the same amount for a line of credit as a master letter of credit, \$50 million. If you think the line of credit route would work better for this situation, we would set up a separate \$50 million line of credit facility and leave the separate \$15 million line of credit in place for working capital needs.

Thank you,  
Ashley



**Ashley Welsh**  
Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Wednesday, January 10, 2018 2:37 PM  
**To:** Ashley Welsh  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Thank you Ashley. I appreciate the detailed information. How would we be able to determine what the maximum amount we would be eligible to receive on a master letter of credit?

Additionally, reading the terms below, prompt the thought of utilizing a line of credit versus a master letter of credit. Collateral can be provided in the form of cash or a letter of credit. Would you believe that we could qualify for a larger line of credit, such as \$50 - \$75 million, versus our current \$15 million?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Ashley Welsh [<mailto:Ashley.Welsh@nrucfc.coop>]  
**Sent:** Wednesday, January 10, 2018 2:13 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** RE: Notification of Request for RUS approval of Purchase Power Agreement

Hi Michelle,

Thank you very much for the request letter to RUS.

Here are some terms of the Master Letter of Credit facility:

- The Master Letter of Credit facility is unsecured
- The term/maturity of the facility is up to 5 years from closing date
- The annual Master Letter of Credit facility fee, which is 15 basis points, will be charged upon closing and annually on the anniversary date. The facility fee is charged based on the full amount of the facility, regardless of the usage.
- The issuance fee for a letter of credit under the Master LOC is 75 basis points and will be charged at the issuance and annually on the anniversary date. If there is a need to amend a previously issued letter of credit, there would be an amendment fee of \$500.
- In the event of a draw, the Borrower will repay any draw within one year of the date of the draw. It will accrue interest at the standard CFC Line of Credit Rate and earn patronage capital.

To answer your question, the Master Letter of Credit would not be supported by a line of credit, but if the Master Letter of Credit facility exceeds 23 months, our legal department would deem PSC approval necessary to clear CFC loan documents and put the facility in place.

As always, please feel free to reach out with any questions.

Thank you,  
Ashley



**Ashley Welsh**

Associate Vice President

National Rural Utilities  
Cooperative Finance Corporation  
20701 Cooperative Way  
Dulles, VA 20166  
Office: 703-467-1845 or toll-free 800-424-2954  
Fax: 703-467-5652  
Email: [Ashley.Welsh@nrucfc.coop](mailto:Ashley.Welsh@nrucfc.coop)

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Wednesday, January 10, 2018 9:16 AM  
**To:** Ashley Welsh  
**Subject:** Notification of Request for RUS approval of Purchase Power Agreement

Hi Ashley,

I wanted to let you know that we have signed our agreement for the Purchase of 58 MW of power. I am forwarding to you our request for approval that was sent to RUS on Friday. Please let me know if you have any questions.

I would also like to talk more fully about the letter of credit requirements. Our contract does not go into effect until 2019, so we do have some time to work on this, but it would be helpful to know what CFC would require. Would the Master letter of Credit need to be supported in some way by a line of credit? I ask because we would need to get PSC approval for a line of credit that would exceed more than 24 months.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



## COLLATERAL ANNEX

This Collateral Annex, together with the Paragraph 10 Elections, (the "Collateral Annex") supplements, forms a part of, and is subject to, the EEI Master Power Purchase and Sale Agreement, dated December 18, 2017, including the Cover Sheet and any other annexes thereto between South Kentucky Rural Electric Cooperative Corporation ("Party A") and Morgan Stanley Capital Group Inc. ("Party B"). Capitalized terms used in this Collateral Annex but not defined herein shall have the meanings given such terms in the Agreement.

The obligations of each Party under the Agreement shall be secured in accordance with the provisions of this Collateral Annex, which, except as provided below, sets forth the exclusive conditions under which a Party will be required to Transfer Performance Assurance in the form of Cash, a Letter of Credit or other property as agreed to by the Parties, as well as the exclusive conditions under which a Party will release such Performance Assurance. This Collateral Annex supercedes and replaces in its entirety Sections 8.1(c), 8.2(c) and 8.3 of the Agreement and the defined terms used therein to the extent that such terms are otherwise defined and used in this Collateral Annex. In addition, to the extent that the Parties have specified on the Cover Sheet that Sections 8.1(b), 8.1(d), 8.2(b) or 8.2(d) of the Agreement are applicable, then the definition of Performance Assurance as used in this Collateral Annex shall apply and Paragraphs 2, 6, 7 and 9 of this Collateral Annex shall apply to any such Performance Assurance posted under such provisions, it being understood that nothing contained in this Collateral Annex shall change any election that the Parties have specified on the Cover Sheet with respect to Sections 8.1(b), 8.1(d), 8.2(b) or 8.2(d) of the Agreement, which provisions require a Party to Transfer Performance Assurance under certain circumstances not contemplated by this Collateral Annex.

### Paragraph 1. Definitions.

For purposes of this Collateral Annex, the following terms have the respective definitions set forth below:

"Calculation Date" means any Local Business Day on which a Party chooses or is requested by the other Party to make the determinations referred to in Paragraphs 3, 4, 5 or 8 of this Collateral Annex.

"Cash" means U.S. dollars held by or on behalf of a Party as Performance Assurance hereunder.

"Collateral Account" shall have the meaning attributed to it in Paragraph 6(a)(ii)(B).

"Paragraph 10 Cover Sheet" means the Cover Sheet attached to this Collateral Annex setting forth certain elections governing this Collateral Annex.

"Collateral Requirement" shall have the meaning attributed to it in Paragraph 3(b).

"Collateral Threshold" means, with respect to a Party, the collateral threshold, if any, set forth in the Paragraph 10 Cover Sheet for a Party.

"Collateral Value" means (a) with respect to Cash, the face amount thereof; (b) with respect to Letters of Credit, the Valuation Percentage multiplied by the stated amount then available under the Letter of Credit to be unconditionally drawn by the beneficiary thereof; and (c) with respect to other forms of Performance Assurance, the Valuation Percentage multiplied by the fair market value on any Calculation Date of each item of Performance Assurance on deposit with, or held by or for the benefit of, a Party pursuant to this Collateral Annex as determined by such Party in a commercially reasonable manner.

"Credit Rating" means with respect to any entity, on any date of determination, the respective ratings then assigned to such entity's unsecured, senior long-term debt or deposit obligations (not supported by third party credit enhancement) by S&P, Moody's or other specified rating agency or agencies or if such entity does not have a rating for its unsecured, senior long-term debt or deposit obligations, then the rating assigned to such entity as its "corporate credit rating" by S&P.

"Credit Rating Event" shall have the meaning attributed to it in Paragraph 6(a)(iii).

"Current Mark-to-Market Value" of an outstanding Transaction, on any Calculation Date, means the amount, as calculated in good faith and in a commercially reasonable manner, which a Party to the Agreement would pay to (a negative Current Mark-to-Market Value) or receive from (a positive Current Mark-to-Market Value) the other Party as the Settlement Amount (calculated at the mid-point between the bid price and the offer price) for such Transaction.

"Custodian" shall have the meaning attributed to it in Paragraph 6(a)(i).

"Downgraded Party" shall have the meaning attributed to it in Paragraph 6(a)(i).

"Eligible Collateral" means, with respect to a Party, the Performance Assurance specified for such Party on the Paragraph 10 Cover Sheet.

"Exposure" of one Party ("Party X") to the other Party ("Party Y") for each Transaction means (without duplication) as of any Calculation Date the sum of the following:

- (a) the aggregate of all amounts in respect of such Transaction that are owed or otherwise accrued and payable (regardless of whether such amounts have been or could be invoiced) to Party X and that remain unpaid as of such Calculation Date minus the aggregate of all amounts in respect of such Transaction that are owed or otherwise accrued and payable (regardless of whether such amounts have been or could be invoiced) to Party Y and that remain unpaid as of such Calculation Date; plus
- (b) the Current Mark-to-Market Value of such Transaction to Party X.

"Exposure Amount" shall have the meaning set forth in Paragraph 3(a).

"Independent Amount" means, with respect to a Party, the amount, if any, set forth in the Paragraph 10 Cover Sheet for such Party (which amount, if designated, shall either be a Fixed Independent Amount, a Full Floating Independent Amount or a Partial Floating Independent Amount, in each case, as designated on the Paragraph 10 Cover Sheet), or if no amount is specified, zero, or with respect to either Party, an additional or reduced amount agreed to as such for that Party in respect of a Transaction.

"Interest Amount" means with respect to a Party and an Interest Period, the sum of the daily interest amounts for all days in such Interest Period; each daily interest amount to be determined by such Party as follows: (a) the amount of Cash held by such Party on that day; multiplied by (b) the Interest Rate for that day, divided by (c) 360.

"Interest Period" means the period from (and including) the last Local Business Day on which an Interest Amount was Transferred by a Party (or if no Interest Amount has yet been Transferred by such Party, the Local Business Day on which Cash was Transferred to such Party) to (but excluding) the Local Business Day on which the current Interest Amount is to be Transferred.

"Interest Rate" means, in respect of a Party holding Cash, the rate specified for such Party in the Paragraph 10 Cover Sheet.

"Letter of Credit" means an irrevocable, transferable, standby letter of credit, issued by a major U.S. commercial bank or the U.S. branch office of a foreign bank with, in either case, a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, substantially in the form set forth in Schedule 1 attached hereto, with such changes to the terms in that form as the issuing bank may require and as may be acceptable to the beneficiary thereof.

"Letter of Credit Default" means with respect to a Letter of Credit, the occurrence of any of the following events: (a) the issuer of such Letter of Credit shall fail to maintain a Credit Rating of at least (i) "A-" by S&P or "A3" by Moody's, if such issuer is rated by both S&P and Moody's, (ii) "A-" by S&P, if such issuer is rated only by S&P, or (iii) "A3" by Moody's, if such issuer is rated only by Moody's; (b) the issuer of the Letter of Credit shall fail to comply with or perform its obligations under such Letter of Credit; (c) the issuer of such Letter of Credit shall disaffirm, disclaim, repudiate or reject, in whole or in part, or challenge the validity of, such Letter of Credit; (d) such Letter of Credit shall expire or terminate, or shall fail or cease to be in full force and effect at any time during the term of the Agreement, in any such case without replacement; or (e) the issuer of such Letter of Credit shall become Bankrupt; provided, however, that no Letter of Credit Default shall occur or be continuing in any event with respect to a Letter of Credit after the time such Letter of Credit is required to be canceled or returned to a Party in accordance with the terms of this Collateral Annex.

"Local Business Day" means, a day on which commercial banks are open for business (a) in relation to any payment, in the place where the relevant account is located and (b) in relation to any notice or other communication, in the city specified in the address for notice provided by the recipient.



"Minimum Transfer Amount" means, with respect to a Party, the amount, if any, set forth in the Paragraph 10 Cover Sheet for such Party.

"Net Exposure" shall have the meaning attributed to it in Paragraph 3(a).

"Notification Time" means 11:00, New York time, on any Calculation Date or any different time specified in the Paragraph 10 Cover Sheet.

"Obligations" shall have the meaning attributed to it in Paragraph 2.

"Performance Assurance" means all Eligible Collateral, all other property acceptable to the Party to which it is Transferred, and all proceeds thereof, that has been Transferred to or received by a Party hereunder and not subsequently Transferred to the other Party pursuant to Paragraph 5 or otherwise received by the other Party. Any Interest Amount or portion thereof not Transferred pursuant to Paragraph 6(a)(iv) and any Cash received and held by a Party after drawing on any Letter of Credit will constitute Performance Assurance in the form of Cash, until all or any portion of such Cash is applied against Obligations owing to such Party pursuant to the provisions of this Collateral Annex. Any guaranty agreement executed by a Guarantor of a Party shall not constitute Performance Assurance hereunder.

"Pledging Party" shall have the meaning attributed to it in Paragraph 3(b).

"Qualified Institution" means a commercial bank or trust company organized under the laws of the United States or a political subdivision thereof, with (i) a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, and (ii) having a capital and surplus of at least \$1,000,000,000.

"Reference Market-maker" means a leading dealer in the relevant market selected by a Party determining its Exposure in good faith from among dealers of the highest credit standing which satisfy all the criteria that such Party applies generally at the time in deciding whether to offer or to make an extension of credit.

"Rounding Amount" means, with respect to a Party, the amount, if any, set forth in the Paragraph 10 Cover Sheet for such Party.

"Secured Party" shall have the meaning attributed to it in Paragraph 3(b).

"Transfer" means, with respect to any Performance Assurance or Interest Amount, and in accordance with the instructions of the Party entitled thereto:

- (a) in the case of Cash, payment or transfer by wire transfer into one or more bank accounts specified by the recipient;
- (b) in the case of Letters of Credit, delivery of the Letter of Credit or an amendment thereto to the recipient; and

(c) in the case of any other type of Performance Assurance, delivery thereof as specified by the recipient.

"Valuation Percentage" means, with respect to any Performance Assurance designated as Eligible Collateral on the Paragraph 10 Cover Sheet, the Valuation Percentage specified for such Performance Assurance on the Paragraph 10 Cover Sheet.

Paragraph 2. Encumbrance; Grant of Security Interest.

As security for the prompt and complete payment of all amounts due or that may now or hereafter become due from a Party to the other Party and the performance by a Party of all covenants and obligations to be performed by it pursuant to this Collateral Annex, the Agreement, all outstanding Transactions and any other documents, instruments or agreements executed in connection therewith (collectively, the "Obligations"), each Party hereby pledges, assigns, conveys and transfers to the other Party, and hereby grants to the other Party a present and continuing security interest in and to, and a general first lien upon and right of set off against, all Performance Assurance which has been or may in the future be Transferred to, or received by, the other Party and/or its Custodian, and all dividends, interest, and other proceeds from time to time received, receivable or otherwise distributed in respect of, or in exchange for, any or all of the foregoing and each Party agrees to take such action as the other Party reasonably requests in order to perfect the other Party's continuing security interest in, and lien on (and right of setoff against), such Performance Assurance.

Paragraph 3. Calculations of Collateral Requirement.

(a) On any Calculation Date, the "Exposure Amount" for each Party shall be calculated for all Transactions for which there are any Obligations remaining unpaid or unperformed, by calculating each Party's Exposure to the other Party in respect of each such Transaction and determining the net aggregate sum of all Exposures for all Transactions for each Party. The Party having the greater Exposure Amount at any time (the "Secured Party") shall be deemed to have a "Net Exposure" to the other Party equal to the Secured Party's Exposure Amount.

(b) The "Collateral Requirement" for a Party (the "Pledging Party") means the Secured Party's Net Exposure minus the sum of:

(1) the Pledging Party's Collateral Threshold; plus

(2) the amount of Cash previously Transferred to the Secured Party, the amount of Cash held by the Secured Party as Performance Assurance as a result of drawing under any Letter of Credit, and any Interest Amount that has not yet been Transferred to the Pledging Party; plus

(3) the Collateral Value of each Letter of Credit and any other form of Performance Assurance (other than Cash) maintained by the Pledging Party for the benefit of the Secured Party; provided, however, that, the Collateral Requirement of a Party will be

deemed to be zero (0) whenever the calculation of such Party's Collateral Requirement yields a number less than zero (0).

Paragraph 4. Delivery of Performance Assurance.

On any Calculation Date on which (a) no Event of Default or Potential Event of Default has occurred and is continuing with respect to the Secured Party, (b) no Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Secured Party for which there exist any unsatisfied payment Obligations, and (c) the Pledging Party's Collateral Requirement equals or exceeds its Minimum Transfer Amount, then the Secured Party may demand that the Pledging Party Transfer to the Secured Party, and the Pledging Party shall, after receiving such notice from the Secured Party, Transfer, or cause to be Transferred to the Secured Party, Performance Assurance for the benefit of the Secured Party, having a Collateral Value at least equal to the Pledging Party's Collateral Requirement. The amount of Performance Assurance required to be Transferred hereunder shall be rounded up to the nearest integral multiple of the Rounding Amount. Unless otherwise agreed in writing by the Parties, (i) Performance Assurance demanded of a Pledging Party on or before the Notification Time on a Local Business Day shall be provided by the close of business on the next Local Business Day and (ii) Performance Assurance demanded of a Pledging Party after the Notification Time on a Local Business Day shall be provided by the close of business on the second Local Business Day thereafter. Any Letter of Credit or other type of Performance Assurance (other than Cash) shall be Transferred to such address as the Secured Party shall specify and any such demand made by the Secured Party pursuant to this Paragraph 4 shall specify account information for the account to which Performance Assurance in the form of Cash shall be Transferred.

Paragraph 5. Reduction and Substitution of Performance Assurance.

(a) On any Local Business Day (but no more frequently than weekly with respect to Letters of Credit and daily with respect to Cash), a Pledging Party may request a reduction in the amount of Performance Assurance previously provided by the Pledging Party for the benefit of the Secured Party, provided that, after giving effect to the requested reduction in Performance Assurance, (i) the Pledging Party shall in fact have a Collateral Requirement of zero; (ii) no Event of Default or Potential Event of Default with respect to the Pledging Party shall have occurred and be continuing; and (iii) no Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party for which there exist any unsatisfied payment Obligations. A permitted reduction in Performance Assurance may be effected by the Transfer of Cash to the Pledging Party or the reduction of the amount of an outstanding Letter of Credit previously issued for the benefit of the Secured Party. The amount of Performance Assurance required to be reduced hereunder shall be rounded down to the nearest integral multiple of the Rounding Amount. The Pledging Party shall have the right to specify the means of effecting the reduction in Performance Assurance. In all cases, the cost and expense of reducing Performance Assurance (including, but not limited to, the reasonable costs, expenses, and attorneys' fees of the Secured Party) shall be borne by the Pledging Party. Unless otherwise agreed in writing by the Parties, (i) if the Pledging Party's reduction demand is made on or before the Notification Time on a Business Day, then the Secured Party shall have one (1) Local Business Day to effect a permitted reduction in Performance Assurance and (ii) if the Pledging

Party's reduction demand is made after the Notification Time on a Local Business Day, then the Secured Party shall have two (2) Local Business Days to effect a permitted reduction in Performance Assurance, in each case, if such reduction is to be effected by the return of Cash to the Pledging Party. If a permitted reduction in Performance Assurance is to be effected by a reduction in the amount of an outstanding Letter of Credit previously issued for the benefit of the Secured Party, the Secured Party shall promptly take such action as is reasonably necessary to effectuate such reduction.

(b) Except when (i) an Event of Default or Potential Event of Default with respect to the Pledging Party shall have occurred and be continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party for which there exist any unsatisfied payment Obligations, the Pledging Party may substitute Performance Assurance for other existing Performance Assurance of equal Collateral Value upon one (1) Local Business Day's written notice (provided such notice is made on or before the Notification Time, otherwise the notification period shall be two (2) Local Business Days) to the Secured Party; provided, however, that if such substitute Performance Assurance is of a type not otherwise approved by this Collateral Annex, then the Secured Party must consent to such substitution. Upon the Transfer to the Secured Party and/or its Custodian of the substitute Performance Assurance, the Secured Party and/or its Custodian shall Transfer the relevant replaced Performance Assurance to the Pledging Party within two (2) Local Business Days. Notwithstanding anything herein to the contrary, no such substitution shall be permitted unless (i) the substitute Performance Assurance is Transferred simultaneously or has been Transferred to the Secured Party and/or its Custodian prior to the release of the Performance Assurance to be returned to the Pledging Party and the security interest in, and general first lien upon, such substituted Performance Assurance granted pursuant hereto in favor of the Secured Party shall have been perfected as required by applicable law and shall constitute a first priority perfected security interest therein and general first lien thereon, and (ii) after giving effect to such substitution, the Collateral Value of such substitute Performance Assurance shall equal the greater of the Pledging Party's Collateral Requirement or the Pledging Party's Minimum Transfer Amount. Each substitution of Performance Assurance shall constitute a representation and warranty by the Pledging Party that the substituted Performance Assurance shall be subject to and governed by the terms and conditions of this Collateral Annex, including without limitation the security interest in, general first lien on and right of offset against, such substituted Performance Assurance granted pursuant hereto in favor of the Secured Party pursuant to Paragraph 2.

(c) The Transfer of any Performance Assurance by the Secured Party and/or its Custodian in accordance with this Paragraph 5 shall be deemed a release by the Secured Party of its security interest, general first lien and right of offset granted pursuant to Paragraph 2 hereof only with respect to such returned Performance Assurance. In connection with each Transfer of any Performance Assurance pursuant to this Paragraph 5, the Pledging Party will, upon request of the Secured Party, execute a receipt showing the Performance Assurance Transferred to it.

Paragraph 6. Administration of Performance Assurance.

(a) Cash. Performance Assurance provided in the form of Cash to a Party that is the Secured Party shall be subject to the following provisions.



(i) If such Party is entitled to hold Cash, then it will be entitled to hold Cash or to appoint an agent which is a Qualified Institution (a "Custodian") to hold Cash for it provided that the conditions for holding Cash that are set forth on the Paragraph 10 Cover Sheet for such Party are satisfied. If such Party is not entitled to hold Cash, then the provisions of Paragraph 6(a)(ii) shall not apply with respect to such Party and Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B). Upon notice by the Secured Party to the Pledging Party of the appointment of a Custodian, the Pledging Party's obligations to make any Transfer will be discharged by making the Transfer to that Custodian. The holding of Cash by a Custodian will be deemed to be the holding of Cash by the Secured Party for which the Custodian is acting. If the Secured Party or its Custodian fails to satisfy any conditions for holding Cash as set forth above or in the Paragraph 10 Cover Sheet or if the Secured Party is not entitled to hold Cash at any time, then the Secured Party will Transfer, or cause its Custodian to Transfer, the Cash to a Qualified Institution and the Cash shall be maintained in accordance with Paragraph 6(a)(ii)(B), with the Party not eligible to hold Cash being considered the "Downgraded Party" (as defined below). Except as set forth in Paragraph 6(c), the Secured Party will be liable for the acts or omissions of its Custodian to the same extent that the Secured Party would be liable hereunder for its own acts or omissions.

(ii) Use of Cash. Notwithstanding the provisions of applicable law, if no Event of Default has occurred and is continuing with respect to the Secured Party and no Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Secured Party for which there exist any unsatisfied payment Obligations, then the Secured Party shall have the right to sell, pledge, rehypothecate, assign, invest, use, commingle or otherwise use in its business any Cash that it holds as Performance Assurance hereunder, free from any claim or right of any nature whatsoever of the Pledging Party, including any equity or right of redemption by the Pledging Party; provided, however, that if a Party or its Custodian is not eligible to hold Cash pursuant to Paragraph 6(a) (such Party shall be the "Downgraded Party" and the event that caused it or its Custodian to be ineligible to hold Cash shall be a "Credit Rating Event") then:

(A) the provisions of this Paragraph 6(a)(ii) will not apply with respect to the Downgraded Party; and

(B) the Downgraded Party shall be required to Transfer (or cause to be Transferred) not later than the close of business on the next Local Business Day following such Credit Rating Event all Cash in its possession or held on its behalf to a Qualified Institution approved by the non-Downgraded Party (which approval shall not be unreasonably withheld), to a segregated, safekeeping or custody account (the "Collateral Account") within such Qualified Institution with the title of the account indicating that the property contained therein is being held as Cash for the Downgraded Party. The Qualified Institution shall serve as Custodian with respect to the Cash in the Collateral Account, and shall hold such Cash in accordance with the terms of this Collateral Annex and for the security interest of the Downgraded Party and execute such account control agreements as are necessary or applicable to perfect the security interest of the Non-Downgraded Party therein pursuant to Section 9-314 of the Uniform Commercial Code or otherwise, and subject to such security interest, for the ownership and benefit of the non-Downgraded Party. The Qualified Institution holding the Cash will invest and reinvest or procure the investment and reinvestment of the Cash in

accordance with the written instructions of the Pledging Party, subject to the approval of such instructions by the Downgraded Party (which approval shall not be unreasonably withheld), provided that the Qualified Institution shall not be required to so invest or reinvest or procure such investment or reinvestment if an Event of Default or Potential Event of Default with respect to the Pledging Party shall have occurred and be continuing. The Downgraded Party shall have no responsibility for any losses resulting from any investment or reinvestment effected in accordance with the Pledging Party's instructions.

(iii) Interest Payments on Cash. So long as no Event of Default or Potential Event of Default with respect to the Pledging Party has occurred and is continuing, and no Early Termination Date for which any unsatisfied payment Obligations of the Pledging Party exist has occurred or been designated as the result of an Event of Default with respect to the Pledging Party, and to the extent that an obligation to Transfer Performance Assurance would not be created or increased by the Transfer, in the event that the Secured Party or its Custodian is holding Cash, the Secured Party will Transfer (or caused to be Transferred) to the Pledging Party, in lieu of any interest or other amounts paid or deemed to have been paid with respect to such Cash (all of which may be retained by the Secured Party or its Custodian), the Interest Amount. The Pledging Party shall invoice the Secured Party monthly setting forth the calculation of the Interest Amount due, and the Secured Party shall make payment thereof by the later of (A) the third Local Business Day of the first month after the last month to which such invoice relates or (B) the third Local Business Day after the day on which such invoice is received. On or after the occurrence of a Potential Event of Default or an Event of Default with respect to the Pledging Party or an Early Termination Date as a result of an Event of Default with respect to the Pledging Party, the Secured Party or its Custodian shall retain any such Interest Amount as additional Performance Assurance hereunder until the obligations of the Pledging Party under the Agreement have been satisfied in the case of an Early Termination Date or for so long as such Event of Default is continuing in the case of an Event of Default.

(b) Letters of Credit. Performance Assurance provided in the form of a Letter of Credit shall be subject to the following provisions.

(i) Unless otherwise agreed to in writing by the parties, each Letter of Credit shall be provided in accordance with Paragraph 4, and each Letter of Credit shall be maintained for the benefit of the Secured Party. The Pledging Party shall (A) renew or cause the renewal of each outstanding Letter of Credit on a timely basis as provided in the relevant Letter of Credit, (B) if the bank that issued an outstanding Letter of Credit has indicated its intent not to renew such Letter of Credit, provide either a substitute Letter of Credit or other Eligible Collateral, in each case at least twenty (20) Local Business Days prior to the expiration of the outstanding Letter of Credit, and (C) if a bank issuing a Letter of Credit shall fail to honor the Secured Party's properly documented request to draw on an outstanding Letter of Credit, provide for the benefit of the Secured Party either a substitute Letter of Credit that is issued by a bank acceptable to the Secured Party or other Eligible Collateral, in each case within one (1) Local Business Day after such refusal, provided that, as a result of the Pledging Party's failure to perform in accordance with (A), (B), or (C) above, the Pledging Party's Collateral Requirement would be greater than zero.

(ii) As one method of providing Performance Assurance, the Pledging Party may increase the amount of an outstanding Letter of Credit or establish one or more additional Letters of Credit.

(iii) Upon the occurrence of a Letter of Credit Default, the Pledging Party agrees to Transfer to the Secured Party either a substitute Letter of Credit or other Eligible Collateral, in each case on or before the first Local Business Day after the occurrence thereof (or the fifth (5th) Local Business Day after the occurrence thereof if only clause (a) under the definition of Letter of Credit Default applies).

(iv) (A) Upon or at any time after the occurrence and continuation of an Event of Default with respect to the Pledging Party, or (B) if an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party for which there exist any unsatisfied payment Obligations, then the Secured Party may draw on the entire, undrawn portion of any outstanding Letter of Credit upon submission to the bank issuing such Letter of Credit of one or more certificates specifying that such Event of Default or Early Termination Date has occurred and is continuing. Cash proceeds received from drawing upon the Letter of Credit shall be deemed Performance Assurance as security for the Pledging Party's obligations to the Secured Party and the Secured Party shall have the rights and remedies set forth in Paragraph 7 with respect to such cash proceeds. Notwithstanding the Secured Party's receipt of Cash proceeds of a drawing under the Letter of Credit, the Pledging Party shall remain liable (y) for any failure to Transfer sufficient Performance Assurance or (z) for any amounts owing to the Secured Party and remaining unpaid after the application of the amounts so drawn by the Secured Party.

(v) In all cases, the costs and expenses (including but not limited to the reasonable costs, expenses, and attorneys' fees of the Secured Party) of establishing, renewing, substituting, canceling, and increasing the amount of a Letter of Credit shall be borne by the Pledging Party.

(c) Care of Performance Assurance. Except as otherwise provided in Paragraph 6(a)(iii) and beyond the exercise of reasonable care in the custody thereof, the Secured Party shall have no duty as to any Performance Assurance in its possession or control or in the possession or control of any Custodian or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of the Performance Assurance in its possession, and/or in the possession of its agent for safekeeping, if the Performance Assurance is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Performance Assurance, or for any diminution in the value thereof, by reason of the act or omission of any Custodian selected by the Secured Party in good faith except to the extent such loss or damage is the result of such agent's willful misconduct or negligence. Unless held by a Custodian, the Secured Party shall at all times retain possession or control of any Performance Assurance Transferred to it. The holding of Performance Assurance by a Custodian for the benefit of the Secured Party shall be deemed to be the holding and possession of such Performance Assurance by the Secured Party for the purpose of perfecting the security interest in the Performance Assurance. Except as otherwise provided

in Paragraph 6(a)(ii), nothing in this Collateral Annex shall be construed as requiring the Secured Party to select a Custodian for the keeping of Performance Assurance for its benefit.

Paragraph 7. Exercise of Rights Against Performance Assurance.

(a) In the event that (i) an Event of Default with respect to the Pledging Party has occurred and is continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party, the Secured Party may exercise any one or more of the rights and remedies provided under the Agreement, in this Collateral Annex or as otherwise available under applicable law. Without limiting the foregoing, if at any time (i) an Event of Default with respect to the Pledging Party has occurred and is continuing, or (ii) an Early Termination Date occurs or is deemed to occur as a result of an Event of Default with respect to the Pledging Party, then the Secured Party may, in its sole discretion, exercise any one or more of the following rights and remedies:

- (i) all rights and remedies available to a secured party under the Uniform Commercial Code and any other applicable jurisdiction and other applicable laws with respect to the Performance Assurance held by or for the benefit of the Secured Party;
- (ii) the right to set off any Performance Assurance held by or for the benefit of the Secured Party against and in satisfaction of any amount payable by the Pledging Party in respect of any of its Obligations;
- (iii) the right to draw on any outstanding Letter of Credit issued for its benefit; and/or
- (iv) the right to liquidate any Performance Assurance held by or for the benefit of the Secured Party through one or more public or private sales or other dispositions with such notice, if any, as may be required by applicable law, free from any claim or right of any nature whatsoever of the Pledging Party, including any right of equity or redemption by the Pledging Party (with the Secured Party having the right to purchase any or all of the Performance Assurance to be sold) and to apply the proceeds from the liquidation of such Performance Assurance to and in satisfaction of any amount payable by the Pledging Party in respect of any of its Obligations in such order as the Secured Party may elect.

(b) The Pledging Party hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as the Pledging Party's true and lawful attorney-in-fact with full irrevocable power and authority to act in the name, place and stead of the Pledging Party or in the Secured Party's own name, from time to time in the Secured Party's discretion, for the purpose of taking any and all action and executing and delivering any and all documents or instruments which may be necessary or desirable to accomplish the purposes of Paragraph 7(a).

(c) Secured Party shall be under no obligation to prioritize the order with respect to which it exercises any one or more rights and remedies available hereunder. The Pledging Party shall in all events remain liable to the Secured Party for any amount payable by the Pledging



Party in respect of any of its Obligations remaining unpaid after any such liquidation, application and set off.

(d) In addition to the provisions of Paragraph 7(a), if at any time (i) an Event of Default with respect to the Secured Party has occurred and is continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Secured Party, then:

(1) the Secured Party will be obligated immediately to Transfer all Performance Assurance (including any Letter of Credit) and the Interest Amount, if any, to the Pledging Party;

(2) the Pledging Party may do any one or more of the following: (x) exercise any of the rights and remedies of a pledgor with respect to the Performance Assurance, including any such rights and remedies under law then in effect; (y) to the extent that the Performance Assurance or the Interest Amount is not Transferred to the Pledging Party as required in (1) above, setoff amounts payable to the Secured Party against the Performance Assurance (other than Letters of Credit) held by the Secured Party or to the extent its rights to setoff are not exercised, withhold payment of any remaining amounts payable by the Pledging Party, up to the value of any remaining Performance Assurance held by the Secured Party, until the Performance Assurance is Transferred to the Pledging Party; and (z) exercise rights and remedies available to the Pledging Party under the terms of any Letter of Credit; and

(3) the Secured Party shall be prohibited from drawing on any Letter of Credit that has been posted by the Pledging Party for its benefit.

#### Paragraph 8. Disputed Calculations

(a) If the Pledging Party disputes the amount of Performance Assurance requested by the Secured Party and such dispute relates to the amount of the Net Exposure claimed by the Secured Party, then the Pledging Party shall (i) notify the Secured Party of the existence and nature of the dispute not later than the Notification Time on the first Local Business Day following the date that the demand for Performance Assurance is made by the Secured Party pursuant to Paragraph 4, and (ii) provide Performance Assurance to or for the benefit of the Secured Party in an amount equal to the Pledging Party's own estimate, made in good faith and in a commercially reasonable manner, of the Pledging Party's Collateral Requirement in accordance with Paragraph 4. In all such cases, the Parties thereafter shall promptly consult with each other in order to reconcile the two conflicting amounts. If the Parties have not been able to resolve their dispute on or before the second Business Day following the date that the demand is made by the Secured Party, then the Secured Party's Net Exposure shall be recalculated by each Party requesting quotations from one (1) Reference Market-Maker within two (2) Business Days (taking the arithmetic average of those obtained to obtain the average Current Mark-to-Market Value; provided, that, if only one (1) quotation can be obtained, then that quotation shall be used) for the purpose of recalculating the Current Mark-to-Market Value of each Transaction in respect of which the Parties disagree as to the Current Mark-to-Market Value thereof, and the Secured Party shall inform the Pledging Party of the results of

such recalculation (in reasonable detail). Performance Assurance shall thereupon be provided, returned, or reduced, if necessary, on the next Local Business Day in accordance with the results of such recalculation.

(b) If the Secured Party disputes the amount of Performance Assurance to be reduced by the Secured Party and such dispute relates to the amount of the Net Exposure claimed by the Secured Party, then the Secured Party shall (i) notify the Pledging Party of the existence and nature of the dispute not later than the Notification Time on the first Local Business Day following the date that the demand to reduce Performance Assurance is made by the Pledging Party pursuant to Paragraph 5(a), and (ii) effect the reduction of Performance Assurance to or for the benefit of the Pledging Party in an amount equal to the Secured Party's own estimate, made in good faith and in a commercially reasonable manner, of the Pledging Party's Collateral Requirement in accordance with Paragraph 5(a). In all such cases, the Parties thereafter shall promptly consult with each other in order to reconcile the two conflicting amounts. If the Parties have not been able to resolve their dispute on or before the second Local Business Day following the date that the demand is made by the Pledging Party, then the Secured Party's Net Exposure shall be recalculated by each Party requesting quotations from one (1) Reference Market-Maker within two (2) Business Days (taking the arithmetic average of those obtained to obtain the average Current Mark-to-Market Value; provided, that, if only one (1) quotation can be obtained, then that quotation shall be used) for the purpose of recalculating the Current Mark-to-Market Value of each Transaction in respect of which the Parties disagree as to the Current Mark-to-Market Value thereof, and the Secured Party shall inform the Pledging Party of the results of such recalculation (in reasonable detail). Performance Assurance shall thereupon be provided, returned, or reduced, if necessary, on the next Local Business Day in accordance with the results of such recalculation.

Paragraph 9. Covenants; Representations and Warranties; Miscellaneous.

(a) The Pledging Party will execute and deliver to the Secured Party (and to the extent permitted by applicable law, the Pledging Party hereby authorizes the Secured Party to execute and deliver, in the name of the Pledging Party or otherwise) such financing statements, assignments and other documents and do such other things relating to the Performance Assurance and the security interest granted under this Collateral Annex, including any action the Secured Party may deem necessary or appropriate to perfect or maintain perfection of its security interest in the Performance Assurance, and the Pledging Party shall pay all costs relating to its Transfer of Performance Assurance and the maintenance and perfection of the security interest therein.

(b) On each day on which Performance Assurance is held by the Secured Party and/or its Custodian under the Agreement and this Collateral Annex, the Pledging Party hereby represents and warrants that:

(i) the Pledging Party has good title to and is the sole owner of such Performance Assurance, and the execution, delivery and performance of the covenants and agreements of this Collateral Annex, do not result in the creation or imposition of any lien or security interest upon any of its assets or properties, including, without limitation,

the Performance Assurance, other than the security interests and liens created under the Agreement and this Collateral Annex;

(ii) upon the Transfer of Performance Assurance by the Pledging Party to the Secured Party and/or its Custodian, the Secured Party shall have a valid and perfected first priority continuing security interest therein, free of any liens, claims or encumbrances, except those liens, security interests, claims or encumbrances arising by operation of law that are given priority over a perfected security interest; and

(iii) it is not and will not become a party to or otherwise be bound by any agreement, other than the Agreement and this Collateral Annex, which restricts in any manner the rights of any present or future holder of any of the Performance Assurance with respect hereto.

(c) This Collateral Annex has been and is made solely for the benefit of the Parties and their permitted successors and assigns, and no other person, partnership, association, corporation or other entity shall acquire or have any right under or by virtue of this Collateral Annex.

(d) The Pledging Party shall pay on request and indemnify the Secured Party against any taxes (including without limitation, any applicable transfer taxes and stamp, registration or other documentary taxes), assessments, or charges that may become payable by reason of the security interests, general first lien and right of offset granted under this Collateral Annex or the execution, delivery, performance or enforcement of the Agreement and this Collateral Annex, as well as any penalties with respect thereto (including, without limitation costs and reasonable fees and disbursements of counsel). The Parties each agree to pay the other Party for all reasonable expenses (including without limitation, court costs and reasonable fees and disbursements of counsel) incurred by the other in connection with the enforcement of, or suing for or collecting any amounts payable by it under, the Agreement and this Collateral Annex.

(e) No failure or delay by either Party hereto in exercising any right, power, privilege, or remedy hereunder shall operate as a waiver thereof.

(f) The headings in this Collateral Annex are for convenience of reference only, and shall not affect the meaning or construction of any provision thereof.

SCHEDULE 1 to Collateral Annex

IRREVOCABLE STANDBY LETTER OF CREDIT FORMAT

DATE OF ISSUANCE: \_\_\_\_\_

[Address]

Re: Credit No. \_\_\_\_\_

We hereby establish our Irrevocable Transferable Standby Letter of Credit in your favor for the account of \_\_\_\_\_ (the "Account Party"), for the aggregate amount not exceeding \_\_\_\_\_ United States Dollars (\$ \_\_\_\_\_), available to you at sight upon demand at our counters at (Location) on or before the expiration hereof against presentation to us of one or more of the following statements, dated and signed by a representative of the beneficiary:

1. "An Event of Default (as defined in the Master Purchase and Sale Agreement dated as of \_\_\_\_\_ between beneficiary and Account Party, as the same may be amended (the "Master Agreement")) has occurred and is continuing with respect to Account Party under the Master Agreement and no Event of Default has occurred and is continuing with respect to the beneficiary of this Letter of Credit. Wherefore, the undersigned does hereby demand payment of the entire undrawn amount of the Letter of Credit"; or
2. "An Early Termination Date (as defined in the Master Purchase and Sale Agreement dated as of \_\_\_\_\_ between beneficiary and Account Party, as the same may be amended (the "Master Agreement")) has occurred and is continuing with respect to Account Party under the Master Agreement and no Event of Default has occurred and is continuing with respect to the beneficiary of this Letter of Credit. Wherefore, the undersigned does hereby demand payment of the entire undrawn amount of the Letter of Credit".

This Letter of Credit shall expire on \_\_\_\_\_.

The amount which may be drawn by you under this Letter of Credit shall be automatically reduced by the amount of any drawings paid through the Issuing Bank referencing this Letter of Credit No. \_\_\_\_\_. Partial drawings are permitted hereunder.

We hereby agree with you that documents drawn under and in compliance with the terms of this Letter of Credit shall be duly honored upon presentation as specified.

This Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 (the "UCP"), except to the extent that the terms hereof are inconsistent with the provisions of the UCP, including but not limited to Articles 13(b) and 17 of the UCP, in which case the terms of this Letter of Credit shall govern.

With respect to Article 13(b) of the UCP, the Issuing Bank shall have a reasonable

amount of time, not to exceed three (3) banking days following the date of its receipt of documents from the beneficiary, to examine the documents and determine whether to take up or refuse the documents and to inform the beneficiary accordingly.

In the event of an Act of God, riot, civil commotion, insurrection, war or any other cause beyond our control that interrupts our business (collectively, an "Interruption Event") and causes the place for presentation of this Letter of Credit to be closed for business on the last day for presentation, the expiry date of this Letter of Credit will be automatically extended without amendment to a date thirty (30) calendar days after the place for presentation reopens for business.

This Letter of Credit is transferable, and we hereby consent to such transfer, but otherwise may not be amended, changed or modified without the express written consent of the beneficiary, the Issuing Bank and the Account Party.

[BANK SIGNATURE]

**PARAGRAPH 10**  
**to the**  
**COLLATERAL ANNEX**  
**to the**  
**EI MASTER POWER PURCHASE AND SALE AGREEMENT**  
**BETWEEN**  
**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE**  
**CORPORATION (PARTY A)**  
**And**  
**MORGAN STANLEY CAPITAL GROUP INC. (PARTY B)**

**CREDIT ELECTIONS COVER SHEET**

**Paragraph 10. Elections and Variables**

**I. Collateral Threshold.**

**A. Party A Collateral Threshold.**

- The Collateral Threshold for Party A shall be the amount set forth under the “Threshold Amount” in the table below opposite the Calendar Year on the relevant date of determination; provided, however, that the Collateral Threshold for Party A shall be zero (\$0) upon the occurrence and during the continuance of a Credit Event, an Event of Default or a Potential Event of Default with respect to Party A; and provided further that, in the event that, and on the date that, Party A cures the Credit Event or Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Credit Event or Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from zero to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

| <b>Calendar Year</b> | <b>Threshold Amount</b> |
|----------------------|-------------------------|
| 2017                 |                         |
| 2018                 |                         |
| 2019                 |                         |
| 2020                 |                         |
| 2021                 |                         |
| 2022                 |                         |
| 2023                 |                         |
| 2024                 |                         |
| 2025                 |                         |
| 2026                 |                         |
| 2027                 |                         |
| 2028                 |                         |
| 2029                 |                         |
| 2030                 |                         |
| 2031                 |                         |

|      |  |  |
|------|--|--|
| 2032 |  |  |
| 2033 |  |  |
| 2034 |  |  |
| 2035 |  |  |
| 2036 |  |  |
| 2037 |  |  |
| 2038 |  |  |
| 2039 |  |  |

“Credit Event” shall mean, with respect to Party A, any of the following events or circumstances: (a) Party A’s TIER Ratio shall fall below a high average TIER Ratio of 1.25 using two of the last three calendar years; (b) Party A’s DSC Ratio shall fall below a high average DSC Ratio of 1.25 using two of the last three calendar years; or (c) Party A suffers a Regulatory Event.

“CFC” means the National Rural Utilities Cooperative Finance Corporation.

“Change in Law” means, for purposes of this Collateral Annex (i) a material change or the enactment, promulgation or issuance or material amendment of any constitution, charter, act, statute, regulation, ordinance, order (including any order waiving application of a legal requirement as to a Party), ruling, rule or other applicable law, or (ii) other legislative or administrative action of any Government Authority of competent jurisdiction or a final decree, judgment, or order of a court of competent jurisdiction (including temporary restraining orders) occurring subsequent to the Trade Date, in each case related to the regulation, generation, transmission, transportation or consumption of energy, its emissions or by-products, or of the regulation of the environment related to any of the foregoing. For purposes of this definition, no enactment, adoption, promulgation, amendment or modification of an Applicable Law shall be considered a Change in Law if, as of the Trade Date, (1) such Applicable Law would have directly affected the performance of the obligations hereunder by either Party after the Trade Date in the absence of this Agreement and (2) either such Applicable Law was (A) officially proposed by the responsible agency and promulgated in final form in the Federal Register or equivalent federal, state or local publication and thereafter becomes effective without further action or (B) enacted into law or promulgated by the appropriate federal, state or local body before the Trade Date, and (i) the comment period with respect to which expired on or before the Trade Date and (ii) any required hearings concluded on or before the Trade Date, in accordance with applicable administrative procedures and which thereafter becomes effective without further action. For the avoidance of doubt, a “Change in Law” hereunder shall not include any change with respect to the regulation of banks or financial firms or their affiliates, nor with respect to the treatment of such entities or their contracts in bankruptcy, insolvency or receivership proceedings.

“CoBank” means CoBank, ACB, an agricultural credit bank organized pursuant to the Farm Credit Act of 1971.

“DSC Ratio” means, for Party A for any calendar year, the debt service coverage ratio set forth in Party A’s annual financial report on Form 7 to Party A’s primary Lender. In the event Party A’s Lender ceases to use Form 7 or its equivalent, the Debt Service Coverage Ratios shall be as calculated in the same manner as calculated by Party A’s Lender.

“Form 7” means the Financial and Statistical Report on Form 7, or its successor or equivalent, as adopted for use by the RUS, for the applicable calendar year.

“Lender” means, from time-to-time throughout the Term, the entity having at the time the largest principal amount loaned to Party A then outstanding from the following list of entities: (a) RUS, (b) CFC (c) CoBank, or (d) in the event Party A has no outstanding



obligations with the foregoing, any other bank, savings-and-loan, surety, financial institution or governmental or quasi-governmental entity acting as a lender of borrowed money or that has extended lines of credit (including for letters of credit) to the applicable Party or its Guarantor.

“Regulatory Event” means a Change in Law which results in the creation of retail access opportunities for one or more classes of consumers of electric energy in Party A’s service territory and thereafter the total number of members taking electric service from Party declines by 13,400 or more from the Trade Date.

“RUS” means the Rural Utilities Service, a Division of the United States Department of Agriculture.

“TIER Ratio” means, for Party A for any calendar year, the times interest earned ratio set forth in Party A’s annual financial report on Form 7 to Party A’s primary Lender. In the event Party A’s Lender ceases to use Form 7 or its equivalent, the TIER Ratio shall be as calculated in the same manner as calculated by Party A’s Lender.

- (a) The amount (the “Threshold Amount”) set forth below under the heading “Party A Collateral Threshold” opposite the Credit Rating for Party A on the relevant date of determination, and if Party A’s Credit Ratings shall not be equivalent, the lower Credit Rating shall govern or (b) zero if on the relevant date of determination Party A does not have a Credit Rating from the rating agency(ies) specified below or an Event of Default or a Potential Event of Default with respect to Party A has occurred and is continuing; provided, however, in the event that, and on the date that, Party A cures the Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from zero to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand:

| <u>Party A<br/>Collateral Threshold</u> | <u>S&amp;P Credit Rating</u> | <u>Moody’s Credit Rating</u> |
|-----------------------------------------|------------------------------|------------------------------|
|-----------------------------------------|------------------------------|------------------------------|

The foregoing paragraph notwithstanding, so long as Party A is not experiencing an Event of Default or Potential Event of Default, its Threshold Amount shall be [an amount equal to an estimated 12 months of payments owed to MSCG]. The Collateral Threshold for Party A shall be [an amount equal to an estimated 3 months of payments owed to MSCG] upon the occurrence and during the continuance of an Event of Default or a Potential Event of Default with respect to Party A; and provided further that, in the event that, and on the date that, Party A cures the Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from the amount set forth herein to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

- The amount of the Guaranty Agreement dated \_\_\_\_\_ from \_\_\_\_\_, as amended from time to time but in no event shall Party B’s Collateral Threshold be greater than \$\_\_\_\_\_.

**B. Party B Collateral Threshold.**

- \$\_\_\_\_\_ (the “Threshold Amount”); provided, however, that the Collateral Threshold for Party B shall be zero upon the occurrence and during the continuance of an Event of Default



or a Potential Event of Default with respect to Party B; and provided further that, in the event that, and on the date that, Party B cures the Potential Event of Default on or prior to the date that Party B is required to post Performance Assurance to Party A pursuant to a demand made by Party A pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party B shall automatically increase from zero to the Threshold Amount and (ii) Party B shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

- X (a) The amount (the "Threshold Amount") set forth below under the heading "Party B Collateral Threshold" opposite the Credit Rating for Party B's Guarantor on the relevant date of determination, and if Party B's Guarantor's Credit Ratings shall not be equivalent, the lower Credit Rating shall govern or (b) zero if on the relevant date of determination its Guarantor does not have a Credit Rating from the rating agency(ies) specified below or an Event of Default or a Potential Event of Default with respect to Party B has occurred and is continuing; provided, however, in the event that, and on the date that, Party B cures the Potential Event of Default on or prior to the date that Party B is required to post Performance Assurance to Party A pursuant to a demand made by Party A pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party B shall automatically increase from zero to the Threshold Amount and (ii) Party B shall be relieved of its obligation to post Performance Assurance pursuant to such demand:

| <u>Party B<br/>Collateral Threshold</u> | <u>S&amp;P Credit Rating</u>                         |
|-----------------------------------------|------------------------------------------------------|
|                                         | A+ and above<br>A- / A<br>BBB- to BBB+<br>Below BBB- |

- The amount of the Guaranty Agreement dated \_\_\_\_\_ from \_\_\_\_\_, as amended from time to time but in no event shall Party B's Collateral Threshold be greater than \$\_\_\_\_\_.

**II. Eligible Collateral and Valuation Percentage.**

The following items will qualify as "Eligible Collateral" for the Party specified:

|     |                                                                                                                                                      | <u>Party<br/>A</u> | <u>Party<br/>B</u> | <u>Valuation Percentage</u>                                                                                                                                                                                                                                                                   |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (A) | Cash                                                                                                                                                 | [X]                | [X]                | 100%                                                                                                                                                                                                                                                                                          |
| (B) | Letters of Credit issued by a Qualified Issuer                                                                                                       | [X]                | [X]                | 100% unless either (i) a Letter of Credit Default shall have occurred and be continuing with respect to such Letter of Credit, or (ii) twenty (20) or fewer Business Days remain prior to the expiration of such Letter of Credit, in which cases the Valuation Percentage shall be zero (0). |
| (C) | Letter of Credit issued by National Rural Utilities Cooperative Finance Corporation ("CFC") or CoBank as long as CFC or CoBank, as applicable, has a | [X]                | [X]                | 100% unless either (i) a Letter of Credit Default shall have occurred and be continuing with respect to such Letter of Credit, or (ii) twenty (20) or fewer Business Days remain prior to the expiration of such Letter of Credit,                                                            |

Credit Rating of at least (i) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (ii) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both.

in which cases the Valuation Percentage shall be zero (0).

- (D) Negotiable debt obligations   96%  
(other than interest-only securities) issued by the U.S. Treasury Department having a remaining maturity of more than 1 year but not more than 5 years
- (E) Negotiable debt obligations   94%  
(other than interest-only securities) issued by the U.S. Treasury Department having a remaining maturity of more than 5 years

**III. Independent Amount.**

**A. Party A Independent Amount.**

- Party A shall have a Fixed Independent Amount of \$██████████. If the Fixed Independent Amount option is selected for Party A, then Party A (which shall be a Pledging Party with respect to the Fixed IA Performance Assurance) will be required to Transfer or cause to be Transferred to Party B (which shall be a Secured Party with respect to the Fixed IA Performance Assurance) Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Fixed IA Performance Assurance"). The Fixed IA Performance Assurance shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the Agreement, and shall not be taken into account when calculating Party A's Collateral Requirement pursuant to the Collateral Annex. Except as expressly set forth above, the Fixed IA Performance Assurance shall be held and maintained in accordance with, and otherwise be subject to, Paragraphs 2, 5(b), 5(c), 6, 7 and 9 of the Collateral Annex.
- Party A shall have a Full Floating Independent Amount of \$\_\_\_\_\_. If the Full Floating Independent Amount option is selected for Party A, then for purposes of calculating Party A's Collateral Requirement pursuant to Paragraph 3 of the Collateral Annex, such Full Floating Independent Amount for Party A shall be added by Party B to its Exposure Amount for purposes of determining Net Exposure pursuant to Paragraph 3(a) of the Collateral Annex.
- Party A shall have a Partial Floating Independent Amount of \$\_\_\_\_\_. If the Partial Floating Independent Amount option is selected for Party A, then Party A will be required to Transfer or cause to be Transferred to Party B Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Partial Floating IA Performance Assurance") if at any time Party A otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the Collateral Annex. The Partial Floating IA Performance Assurance shall not be reduced so long as Party A has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall not

be taken into account when calculating a Party's Collateral Requirements pursuant to the Collateral Annex. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the Collateral Annex.

**B. Party B Independent Amount.**

- Party B shall have a Fixed Independent Amount of [REDACTED]. If the Fixed Independent Amount Option is selected for Party B, then Party B (which shall be a Pledging Party with respect to the Fixed IA Performance Assurance) will be required to Transfer or cause to be Transferred to Party A (which shall be a Secured Party with respect to the Fixed IA Performance Assurance) Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Fixed IA Performance Assurance"). The Fixed IA Performance Assurance shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the Agreement, and shall not be taken into account when calculating Party B's Collateral Requirement pursuant to the Collateral Annex. Except as expressly set forth above, the Fixed IA Performance Assurance shall be held and maintained in accordance with, and otherwise be subject to, Paragraphs 2, 5(b), 5(c), 6, 7 and 9 of the Collateral Annex.
- Party B shall have a Full Floating Independent Amount of \$ \_\_\_\_\_. If the Full Floating Independent Amount Option is selected for Party B then for purposes of calculating Party B's Collateral Requirement pursuant to Paragraph 3 of the Collateral Annex, such Full Floating Independent Amount for Party B shall be added by Party A to its Exposure Amount for purposes of determining Net Exposure pursuant to Paragraph 3(a) of the Collateral Annex.
- Party B shall have a Partial Floating Independent Amount of \$ \_\_\_\_\_. If the Partial Floating Independent Amount option is selected for Party B, then Party B will be required to Transfer or cause to be Transferred to Party A Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Partial Floating IA Performance Assurance") if at any time Party B otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the Collateral Annex. The Partial Floating IA Performance Assurance shall not be reduced for so long as Party B has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall not be taken into account when calculating a Party's Collateral Requirements pursuant to the Collateral Annex. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the Collateral Annex.

**IV. Minimum Transfer Amount.**

- A. **Party A Minimum Transfer Amount:** [REDACTED]
- B. **Party B Minimum Transfer Amount:** [REDACTED]

**V. Rounding Amount.**

- A. **Party A Rounding Amount:** [REDACTED]
- B. **Party B Rounding Amount:** [REDACTED]

**VI. Administration of Cash Collateral.**

**A. Party A Eligibility to Hold Cash.**

- Party A shall not be entitled to hold Performance Assurance in the form of Cash. Performance Assurance in the form of Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B) of the Collateral Annex. Party A shall pay to Party B in accordance with the terms of the Collateral Annex the amount of interest it receives from the Qualified Institution on any Performance Assurance in the form of Cash posted by Party B.
- Party A shall be entitled to hold Performance Assurance in the form of Cash provided that the following conditions are satisfied: (1) it is not subject to an Event of Default or Potential Event of Default, (2) a Downgrade Event has not occurred with respect to Party A, and (3) Cash shall be held only in any jurisdiction within the United States. To the extent Party A is entitled to hold Cash, the Interest Rate payable to Party B on Cash shall be as selected below:

**Party A Interest Rate.**

- Federal Funds Effective Rate - the rate for that day opposite the caption "Federal Funds (Effective)" as set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.
- Other - \_\_\_\_\_

**B. Party B Eligibility to Hold Cash.**

- Party B shall not be entitled to hold Performance Assurance in the form of Cash. Performance Assurance in the form of Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B) of the Collateral Annex. Party B shall pay to Party A in accordance with the terms of the Collateral Annex the amount of interest it receives from the Qualified Institution on any Performance Assurance in the form of Cash posted by Party A.
- Party B shall be entitled to hold Performance Assurance in the form of Cash provided that the following conditions are satisfied: (1) it is not subject to an Event of Default or Potential Event of Default, (2) a Downgrade Event has not occurred with respect to Party B's guarantor, and (3) Cash shall be held only in any jurisdiction within the United States. To the extent Party B is entitled to hold Cash, the Interest Rate payable to Party A on Cash shall be as selected below:

**Party B Interest Rate.**

- Federal Funds Effective Rate - the rate for that day opposite the caption "Federal Funds (Effective)" as set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.
- Other - \_\_\_\_\_

**VII. Notification Time.**

- Other – 10:00 AM, Eastern Time

## VIII. General.

With respect to the Collateral Threshold, Independent Amount, Minimum Transfer Amount and Rounding Amount, if no selection is made in this Cover Sheet with respect to a Party, then the applicable amount in each case for such Party shall be zero (0). In addition, with respect to the "Administration of Cash Collateral" section of this Paragraph 10, if no selection is made with respect to a Party, then such Party shall not be entitled to hold Performance Assurance in the form of Cash and such Cash, if any, shall be held in a Qualified Institution pursuant to Paragraph 6(a)(ii)(B) of the Collateral Annex. If a Party is eligible to hold Cash pursuant to a selection in this Paragraph 10 but no Interest Rate is selected, then the Interest Rate for such Party shall be the Federal Funds Effective Rate as defined in Section VI of this Paragraph 10.

## IX. Collateral Annex Amendments

### A. Definitions

- "Letter of Credit" shall be deleted in its entirety and replaced with the following:  
"Letter of Credit" shall have the meaning ascribed to it in the Master Agreement Cover Sheet."
- "Credit Rating Event" shall be amended by replacing "6(a)(iii)" with "6(a)(ii)".
- "Downgraded Party" shall be amended by replacing "6(a)(i)" with "6(a)(ii)".
- "Letter of Credit Default" shall be amended by deleting "or" in the third line and replacing it with "and".
- "Performance Assurance" shall be amended by replacing "6(a)(iv)" with "6(a)(iii)".
- "Secured Party" shall be amended by replacing "3(b)" with "3(a)".
- "Qualified Institution" shall be deleted in its entirety and replaced with the following:  
"Qualified Institution" means a commercial bank or trust company or financial institution, in each case not affiliated with either Party A or Party B, organized under the laws of the United States or a political subdivision thereof, with (i) a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, and (ii) having assets of at least \$10,000,000,000; or, as it relates to Party A, the Cooperative Finance Corporation, CoBank and the Rural Utilities Service."
- "Reference Market-Maker" shall be amended by adding the following phrase at the end thereof: " provided, however, such leading dealers shall not be Party A or Party B or Affiliates of Party A or Party B".

### B. General Amendments

- The opening paragraph shall be amended by replacing "Paragraph 10 Elections" with "Paragraph 10 Cover Sheet".
- For purposes of the Collateral Annex, "setoff", "set off" and "offset" shall have the same meaning.
- Paragraph 2, "Encumbrance; Grant of Security Interest", shall be amended by adding the following language as the last sentence thereof:

“Notwithstanding any language to the contrary in this Paragraph 2, the Parties recognize that Party A’s assets are subject to certain mortgages and other debt agreements, including with the Cooperative Finance Corporation, CoBank and Rural Utilities Service. This section shall not be read to require Party A to act inconsistently with its obligations under such mortgages and other debt agreements and Party A shall not be deemed to be in breach of this Master Agreement by virtue of its compliance with the requirements of its mortgage and debt agreements.”

- Paragraph 3(b)(2) shall be amended by inserting “that has not been returned to the Pledging Party pursuant to this Collateral Annex” after the phrase “the Secured Party” in the first line.
- Paragraph 5(a) shall be amended by deleting “before the Notification Time on a Business Day” and replacing it with “before the Notification Time on a Local Business Day” and by inserting “so long as the amount of the requested reduction is equal to or greater than the Minimum Transfer Amount” after “the Pledging Party for the benefit of the Secured Party” in the third line thereof.
- Paragraph 6(a)(ii)(A) is amended by inserting “(other than subparagraph (B) below)” after “the provisions of this Paragraph 6(a)(ii)” in the first line thereof.
- Paragraph 6(a)(ii)(B) shall be amended by (1) replacing “on the next Local Business Day” with “on the fifth (5th) Local Business Day”; (2) in the eleventh line, changing “Non-Downgraded Party” to “Downgraded Party”; and (3) at the end thereof adding “In the event the Collateral Account is not established or otherwise ready to receive the Transfer of the Cash Performance Assurance by the close of business on the fifth (5th) Local Business Day, the Pledging Party shall either (a) temporarily waive the requirement that such Cash be held in a Collateral Account until the Parties, working diligently together and with the Custodian, are able to establish the Collateral Account and Transfer the Cash Performance Assurance into the Collateral Account, or (b) substitute the Cash Performance Assurance for other Performance Assurance of equal Collateral Value in accordance with Paragraph 5(b).”
- Paragraph 6(a)(iii) (“Interest Payments on Cash”) is amended so that all references therein to “the third Local Business Day” shall read “the fifth (5th) Local Business Day”.
- Paragraph 6(b)(iii) shall be amended by replacing “first” in line three, with “second”.
- A new Paragraph 6(d) is added as follows:

“(d) Negative Interest Rates. If the Interest Amount for an Interest Period would be a negative number it will be deemed to be zero, and for so long as the Interest Amount is a negative number then within 15 Business Days the Pledging Party will substitute and maintain, in accordance with the provisions of Paragraph 5(b), a Letter of Credit for any Eligible Collateral it has previously Transferred in the form of Cash, and upon receipt of such substitute Letter of Credit the Cash shall be returned in accordance with Paragraph 5(b).”
- Paragraph 7(a)(iv) shall be amended by inserting “, in a commercially reasonable manner,” between “liquidate” and “any” in the first line.
- Paragraph 8(b) shall be amended in the first line by replacing “to be reduced by the Secured Party” with “to be reduced by the Pledging Party” immediately after “Performance Assurance”.
- Paragraph 8 is amended by inserting the following new subparagraph 8(c) at the end thereof:

“(c) Each quotation from a Reference Market-maker will be for an amount, if any, that would be paid to the Party requesting the quotation (expressed as a negative number) or by the Party requesting the quotation (expressed as a positive number) in consideration of an agreement between such Party (taking into account this Collateral Annex and the existence of any Guarantor with respect to the obligations of such Party) and the quoting Reference Market-maker to enter into a transaction that would have the effect of preserving for the Party requesting the quotation the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the Parties in respect of such Transaction

or group of Transactions. The costs of retaining Reference Market-makers for the purposes of this Paragraph 8 shall be borne equally by the Secured Party and the Pledging Party. The determination made by such Reference Market-makers shall be binding and conclusive on the Parties absent manifest error.”

**[The remainder of this page is intentionally left blank]**

Execution

IN WITNESS WHEREOF, the Parties have caused this Paragraph 10 the Collateral Annex the EEI Master Power Purchase and Sale Agreement to be executed as of the date first above written.

Party A- **South Kentucky Rural Electric Cooperative Corporation**

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*on*

Party B- **Morgan Stanley Capital Group Inc.**

By: \_\_\_\_\_

Name: **Dennis Holt**

Title: **President and Chief Executive Officer**

By: Charmaine Fearon

Name: Charmaine Fearon

Title: Authorized Signatory



Execution

IN WITNESS WHEREOF, the Parties have caused this Paragraph 10 the Collateral Annex the EEI Master Power Purchase and Sale Agreement to be executed as of the date first above written.

Party A- **South Kentucky Rural Electric Cooperative Corporation**

Party B- **Morgan Stanley Capital Group Inc.**

By: Dennis Holt

By: \_\_\_\_\_

Name: **Dennis Holt**

Name: \_\_\_\_\_

Title: **President and Chief Executive Officer**

Title: \_\_\_\_\_

**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** Collateral for Purchase Power Agreement  
**Date:** Wednesday, January 3, 2018 5:12:00 PM  
**Attachments:** [SKRECC MSCG EEI Collateral Annex \(Executed\).pdf](#)  
[image001.png](#)

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Luke,

I hope you has a good holiday!

I am following up on our discussion regarding collateral for our 20 year Purchase Power Agreement with Morgan Stanley.

I am forwarding to you the Collateral Annex of that contract. If you focus on the collateral requirements beginning on Page 17 of this pdf, it will outline the thresholds for the collateral and the type of collateral that we can provide.

Our collateral requirements will be a moving target throughout the life of this contract. Similarly, our TIER and DSC will dictate the requirements as well.

As I mentioned on the phone, we are considering establishing a master letter of credit as a way to be fluid with our required collateral requirements. As the amount of collateral can fluctuate, we would like to consider the possibility of a master letter of credit in the amount of \$100 million. From this master we would like to draw the letter of credit up to this amount to provide to Morgan Stanley upon request. We have a short turn around time to be able to provide them with a letter of credit one to five days depending on the circumstances.

We have some time to work this out, as the entire agreement must be approved by the Kentucky PSC as well as RUS.

I would definitely like your thoughts on the best way to ensure that we have the necessary collateral. If you have any different suggestions after you read the requirements, I would appreciate the opportunity to discuss them with you. Likewise, if you need more information, please let me know.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



## COLLATERAL ANNEX

This Collateral Annex, together with the Paragraph 10 Elections, (the “Collateral Annex”) supplements, forms a part of, and is subject to, the EEI Master Power Purchase and Sale Agreement, dated December 18, 2017, including the Cover Sheet and any other annexes thereto between South Kentucky Rural Electric Cooperative Corporation (“Party A”) and Morgan Stanley Capital Group Inc. (“Party B”). Capitalized terms used in this Collateral Annex but not defined herein shall have the meanings given such terms in the Agreement.

The obligations of each Party under the Agreement shall be secured in accordance with the provisions of this Collateral Annex, which, except as provided below, sets forth the exclusive conditions under which a Party will be required to Transfer Performance Assurance in the form of Cash, a Letter of Credit or other property as agreed to by the Parties, as well as the exclusive conditions under which a Party will release such Performance Assurance. This Collateral Annex supercedes and replaces in its entirety Sections 8.1(c), 8.2(c) and 8.3 of the Agreement and the defined terms used therein to the extent that such terms are otherwise defined and used in this Collateral Annex. In addition, to the extent that the Parties have specified on the Cover Sheet that Sections 8.1(b), 8.1(d), 8.2(b) or 8.2(d) of the Agreement are applicable, then the definition of Performance Assurance as used in this Collateral Annex shall apply and Paragraphs 2, 6, 7 and 9 of this Collateral Annex shall apply to any such Performance Assurance posted under such provisions, it being understood that nothing contained in this Collateral Annex shall change any election that the Parties have specified on the Cover Sheet with respect to Sections 8.1(b), 8.1(d), 8.2(b) or 8.2(d) of the Agreement, which provisions require a Party to Transfer Performance Assurance under certain circumstances not contemplated by this Collateral Annex.

### Paragraph 1. Definitions.

For purposes of this Collateral Annex, the following terms have the respective definitions set forth below:

“Calculation Date” means any Local Business Day on which a Party chooses or is requested by the other Party to make the determinations referred to in Paragraphs 3, 4, 5 or 8 of this Collateral Annex.

“Cash” means U.S. dollars held by or on behalf of a Party as Performance Assurance hereunder.

“Collateral Account” shall have the meaning attributed to it in Paragraph 6(a)(ii)(B).

“Paragraph 10 Cover Sheet” means the Cover Sheet attached to this Collateral Annex setting forth certain elections governing this Collateral Annex.

“Collateral Requirement” shall have the meaning attributed to it in Paragraph 3(b).

"Collateral Threshold" means, with respect to a Party, the collateral threshold, if any, set forth in the Paragraph 10 Cover Sheet for a Party.

"Collateral Value" means (a) with respect to Cash, the face amount thereof; (b) with respect to Letters of Credit, the Valuation Percentage multiplied by the stated amount then available under the Letter of Credit to be unconditionally drawn by the beneficiary thereof; and (c) with respect to other forms of Performance Assurance, the Valuation Percentage multiplied by the fair market value on any Calculation Date of each item of Performance Assurance on deposit with, or held by or for the benefit of, a Party pursuant to this Collateral Annex as determined by such Party in a commercially reasonable manner.

"Credit Rating" means with respect to any entity, on any date of determination, the respective ratings then assigned to such entity's unsecured, senior long-term debt or deposit obligations (not supported by third party credit enhancement) by S&P, Moody's or other specified rating agency or agencies or if such entity does not have a rating for its unsecured, senior long-term debt or deposit obligations, then the rating assigned to such entity as its "corporate credit rating" by S&P.

"Credit Rating Event" shall have the meaning attributed to it in Paragraph 6(a)(iii).

"Current Mark-to-Market Value" of an outstanding Transaction, on any Calculation Date, means the amount, as calculated in good faith and in a commercially reasonable manner, which a Party to the Agreement would pay to (a negative Current Mark-to-Market Value) or receive from (a positive Current Mark-to-Market Value) the other Party as the Settlement Amount (calculated at the mid-point between the bid price and the offer price) for such Transaction.

"Custodian" shall have the meaning attributed to it in Paragraph 6(a)(i).

"Downgraded Party" shall have the meaning attributed to it in Paragraph 6(a)(i).

"Eligible Collateral" means, with respect to a Party, the Performance Assurance specified for such Party on the Paragraph 10 Cover Sheet.

"Exposure" of one Party ("Party X") to the other Party ("Party Y") for each Transaction means (without duplication) as of any Calculation Date the sum of the following:

- (a) the aggregate of all amounts in respect of such Transaction that are owed or otherwise accrued and payable (regardless of whether such amounts have been or could be invoiced) to Party X and that remain unpaid as of such Calculation Date minus the aggregate of all amounts in respect of such Transaction that are owed or otherwise accrued and payable (regardless of whether such amounts have been or could be invoiced) to Party Y and that remain unpaid as of such Calculation Date; plus
- (b) the Current Mark-to-Market Value of such Transaction to Party X.

"Exposure Amount" shall have the meaning set forth in Paragraph 3(a).

"Independent Amount" means, with respect to a Party, the amount, if any, set forth in the Paragraph 10 Cover Sheet for such Party (which amount, if designated, shall either be a Fixed Independent Amount, a Full Floating Independent Amount or a Partial Floating Independent Amount, in each case, as designated on the Paragraph 10 Cover Sheet), or if no amount is specified, zero, or with respect to either Party, an additional or reduced amount agreed to as such for that Party in respect of a Transaction.

"Interest Amount" means with respect to a Party and an Interest Period, the sum of the daily interest amounts for all days in such Interest Period; each daily interest amount to be determined by such Party as follows: (a) the amount of Cash held by such Party on that day; multiplied by (b) the Interest Rate for that day, divided by (c) 360.

"Interest Period" means the period from (and including) the last Local Business Day on which an Interest Amount was Transferred by a Party (or if no Interest Amount has yet been Transferred by such Party, the Local Business Day on which Cash was Transferred to such Party) to (but excluding) the Local Business Day on which the current Interest Amount is to be Transferred.

"Interest Rate" means, in respect of a Party holding Cash, the rate specified for such Party in the Paragraph 10 Cover Sheet.

"Letter of Credit" means an irrevocable, transferable, standby letter of credit, issued by a major U.S. commercial bank or the U.S. branch office of a foreign bank with, in either case, a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, substantially in the form set forth in Schedule 1 attached hereto, with such changes to the terms in that form as the issuing bank may require and as may be acceptable to the beneficiary thereof.

"Letter of Credit Default" means with respect to a Letter of Credit, the occurrence of any of the following events: (a) the issuer of such Letter of Credit shall fail to maintain a Credit Rating of at least (i) "A-" by S&P or "A3" by Moody's, if such issuer is rated by both S&P and Moody's, (ii) "A-" by S&P, if such issuer is rated only by S&P, or (iii) "A3" by Moody's, if such issuer is rated only by Moody's; (b) the issuer of the Letter of Credit shall fail to comply with or perform its obligations under such Letter of Credit; (c) the issuer of such Letter of Credit shall disaffirm, disclaim, repudiate or reject, in whole or in part, or challenge the validity of, such Letter of Credit; (d) such Letter of Credit shall expire or terminate, or shall fail or cease to be in full force and effect at any time during the term of the Agreement, in any such case without replacement; or (e) the issuer of such Letter of Credit shall become Bankrupt; provided, however, that no Letter of Credit Default shall occur or be continuing in any event with respect to a Letter of Credit after the time such Letter of Credit is required to be canceled or returned to a Party in accordance with the terms of this Collateral Annex.

"Local Business Day" means, a day on which commercial banks are open for business (a) in relation to any payment, in the place where the relevant account is located and (b) in relation to any notice or other communication, in the city specified in the address for notice provided by the recipient.

"Minimum Transfer Amount" means, with respect to a Party, the amount, if any, set forth in the Paragraph 10 Cover Sheet for such Party.

"Net Exposure" shall have the meaning attributed to it in Paragraph 3(a).

"Notification Time" means 11:00, New York time, on any Calculation Date or any different time specified in the Paragraph 10 Cover Sheet.

"Obligations" shall have the meaning attributed to it in Paragraph 2.

"Performance Assurance" means all Eligible Collateral, all other property acceptable to the Party to which it is Transferred, and all proceeds thereof, that has been Transferred to or received by a Party hereunder and not subsequently Transferred to the other Party pursuant to Paragraph 5 or otherwise received by the other Party. Any Interest Amount or portion thereof not Transferred pursuant to Paragraph 6(a)(iv) and any Cash received and held by a Party after drawing on any Letter of Credit will constitute Performance Assurance in the form of Cash, until all or any portion of such Cash is applied against Obligations owing to such Party pursuant to the provisions of this Collateral Annex. Any guaranty agreement executed by a Guarantor of a Party shall not constitute Performance Assurance hereunder.

"Pledging Party" shall have the meaning attributed to it in Paragraph 3(b).

"Qualified Institution" means a commercial bank or trust company organized under the laws of the United States or a political subdivision thereof, with (i) a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, and (ii) having a capital and surplus of at least \$1,000,000,000.

"Reference Market-maker" means a leading dealer in the relevant market selected by a Party determining its Exposure in good faith from among dealers of the highest credit standing which satisfy all the criteria that such Party applies generally at the time in deciding whether to offer or to make an extension of credit.

"Rounding Amount" means, with respect to a Party, the amount, if any, set forth in the Paragraph 10 Cover Sheet for such Party.

"Secured Party" shall have the meaning attributed to it in Paragraph 3(b).

"Transfer" means, with respect to any Performance Assurance or Interest Amount, and in accordance with the instructions of the Party entitled thereto:

- (a) in the case of Cash, payment or transfer by wire transfer into one or more bank accounts specified by the recipient;
- (b) in the case of Letters of Credit, delivery of the Letter of Credit or an amendment thereto to the recipient; and

(c) in the case of any other type of Performance Assurance, delivery thereof as specified by the recipient.

"Valuation Percentage" means, with respect to any Performance Assurance designated as Eligible Collateral on the Paragraph 10 Cover Sheet, the Valuation Percentage specified for such Performance Assurance on the Paragraph 10 Cover Sheet.

Paragraph 2. Encumbrance; Grant of Security Interest.

As security for the prompt and complete payment of all amounts due or that may now or hereafter become due from a Party to the other Party and the performance by a Party of all covenants and obligations to be performed by it pursuant to this Collateral Annex, the Agreement, all outstanding Transactions and any other documents, instruments or agreements executed in connection therewith (collectively, the "Obligations"), each Party hereby pledges, assigns, conveys and transfers to the other Party, and hereby grants to the other Party a present and continuing security interest in and to, and a general first lien upon and right of set off against, all Performance Assurance which has been or may in the future be Transferred to, or received by, the other Party and/or its Custodian, and all dividends, interest, and other proceeds from time to time received, receivable or otherwise distributed in respect of, or in exchange for, any or all of the foregoing and each Party agrees to take such action as the other Party reasonably requests in order to perfect the other Party's continuing security interest in, and lien on (and right of setoff against), such Performance Assurance.

Paragraph 3. Calculations of Collateral Requirement.

(a) On any Calculation Date, the "Exposure Amount" for each Party shall be calculated for all Transactions for which there are any Obligations remaining unpaid or unperformed, by calculating each Party's Exposure to the other Party in respect of each such Transaction and determining the net aggregate sum of all Exposures for all Transactions for each Party. The Party having the greater Exposure Amount at any time (the "Secured Party") shall be deemed to have a "Net Exposure" to the other Party equal to the Secured Party's Exposure Amount.

(b) The "Collateral Requirement" for a Party (the "Pledging Party") means the Secured Party's Net Exposure minus the sum of:

(1) the Pledging Party's Collateral Threshold; plus

(2) the amount of Cash previously Transferred to the Secured Party, the amount of Cash held by the Secured Party as Performance Assurance as a result of drawing under any Letter of Credit, and any Interest Amount that has not yet been Transferred to the Pledging Party; plus

(3) the Collateral Value of each Letter of Credit and any other form of Performance Assurance (other than Cash) maintained by the Pledging Party for the benefit of the Secured Party; provided, however, that, the Collateral Requirement of a Party will be



deemed to be zero (0) whenever the calculation of such Party's Collateral Requirement yields a number less than zero (0).

Paragraph 4. Delivery of Performance Assurance.

On any Calculation Date on which (a) no Event of Default or Potential Event of Default has occurred and is continuing with respect to the Secured Party, (b) no Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Secured Party for which there exist any unsatisfied payment Obligations, and (c) the Pledging Party's Collateral Requirement equals or exceeds its Minimum Transfer Amount, then the Secured Party may demand that the Pledging Party Transfer to the Secured Party, and the Pledging Party shall, after receiving such notice from the Secured Party, Transfer, or cause to be Transferred to the Secured Party, Performance Assurance for the benefit of the Secured Party, having a Collateral Value at least equal to the Pledging Party's Collateral Requirement. The amount of Performance Assurance required to be Transferred hereunder shall be rounded up to the nearest integral multiple of the Rounding Amount. Unless otherwise agreed in writing by the Parties, (i) Performance Assurance demanded of a Pledging Party on or before the Notification Time on a Local Business Day shall be provided by the close of business on the next Local Business Day and (ii) Performance Assurance demanded of a Pledging Party after the Notification Time on a Local Business Day shall be provided by the close of business on the second Local Business Day thereafter. Any Letter of Credit or other type of Performance Assurance (other than Cash) shall be Transferred to such address as the Secured Party shall specify and any such demand made by the Secured Party pursuant to this Paragraph 4 shall specify account information for the account to which Performance Assurance in the form of Cash shall be Transferred.

Paragraph 5. Reduction and Substitution of Performance Assurance.

(a) On any Local Business Day (but no more frequently than weekly with respect to Letters of Credit and daily with respect to Cash), a Pledging Party may request a reduction in the amount of Performance Assurance previously provided by the Pledging Party for the benefit of the Secured Party, provided that, after giving effect to the requested reduction in Performance Assurance, (i) the Pledging Party shall in fact have a Collateral Requirement of zero; (ii) no Event of Default or Potential Event of Default with respect to the Pledging Party shall have occurred and be continuing; and (iii) no Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party for which there exist any unsatisfied payment Obligations. A permitted reduction in Performance Assurance may be effected by the Transfer of Cash to the Pledging Party or the reduction of the amount of an outstanding Letter of Credit previously issued for the benefit of the Secured Party. The amount of Performance Assurance required to be reduced hereunder shall be rounded down to the nearest integral multiple of the Rounding Amount. The Pledging Party shall have the right to specify the means of effecting the reduction in Performance Assurance. In all cases, the cost and expense of reducing Performance Assurance (including, but not limited to, the reasonable costs, expenses, and attorneys' fees of the Secured Party) shall be borne by the Pledging Party. Unless otherwise agreed in writing by the Parties, (i) if the Pledging Party's reduction demand is made on or before the Notification Time on a Business Day, then the Secured Party shall have one (1) Local Business Day to effect a permitted reduction in Performance Assurance and (ii) if the Pledging



Party's reduction demand is made after the Notification Time on a Local Business Day, then the Secured Party shall have two (2) Local Business Days to effect a permitted reduction in Performance Assurance, in each case, if such reduction is to be effected by the return of Cash to the Pledging Party. If a permitted reduction in Performance Assurance is to be effected by a reduction in the amount of an outstanding Letter of Credit previously issued for the benefit of the Secured Party, the Secured Party shall promptly take such action as is reasonably necessary to effectuate such reduction.

(b) Except when (i) an Event of Default or Potential Event of Default with respect to the Pledging Party shall have occurred and be continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party for which there exist any unsatisfied payment Obligations, the Pledging Party may substitute Performance Assurance for other existing Performance Assurance of equal Collateral Value upon one (1) Local Business Day's written notice (provided such notice is made on or before the Notification Time, otherwise the notification period shall be two (2) Local Business Days) to the Secured Party; provided, however, that if such substitute Performance Assurance is of a type not otherwise approved by this Collateral Annex, then the Secured Party must consent to such substitution. Upon the Transfer to the Secured Party and/or its Custodian of the substitute Performance Assurance, the Secured Party and/or its Custodian shall Transfer the relevant replaced Performance Assurance to the Pledging Party within two (2) Local Business Days. Notwithstanding anything herein to the contrary, no such substitution shall be permitted unless (i) the substitute Performance Assurance is Transferred simultaneously or has been Transferred to the Secured Party and/or its Custodian prior to the release of the Performance Assurance to be returned to the Pledging Party and the security interest in, and general first lien upon, such substituted Performance Assurance granted pursuant hereto in favor of the Secured Party shall have been perfected as required by applicable law and shall constitute a first priority perfected security interest therein and general first lien thereon, and (ii) after giving effect to such substitution, the Collateral Value of such substitute Performance Assurance shall equal the greater of the Pledging Party's Collateral Requirement or the Pledging Party's Minimum Transfer Amount. Each substitution of Performance Assurance shall constitute a representation and warranty by the Pledging Party that the substituted Performance Assurance shall be subject to and governed by the terms and conditions of this Collateral Annex, including without limitation the security interest in, general first lien on and right of offset against, such substituted Performance Assurance granted pursuant hereto in favor of the Secured Party pursuant to Paragraph 2.

(c) The Transfer of any Performance Assurance by the Secured Party and/or its Custodian in accordance with this Paragraph 5 shall be deemed a release by the Secured Party of its security interest, general first lien and right of offset granted pursuant to Paragraph 2 hereof only with respect to such returned Performance Assurance. In connection with each Transfer of any Performance Assurance pursuant to this Paragraph 5, the Pledging Party will, upon request of the Secured Party, execute a receipt showing the Performance Assurance Transferred to it.

Paragraph 6. Administration of Performance Assurance.

(a) Cash. Performance Assurance provided in the form of Cash to a Party that is the Secured Party shall be subject to the following provisions.

(i) If such Party is entitled to hold Cash, then it will be entitled to hold Cash or to appoint an agent which is a Qualified Institution (a "Custodian") to hold Cash for it provided that the conditions for holding Cash that are set forth on the Paragraph 10 Cover Sheet for such Party are satisfied. If such Party is not entitled to hold Cash, then the provisions of Paragraph 6(a)(ii) shall not apply with respect to such Party and Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B). Upon notice by the Secured Party to the Pledging Party of the appointment of a Custodian, the Pledging Party's obligations to make any Transfer will be discharged by making the Transfer to that Custodian. The holding of Cash by a Custodian will be deemed to be the holding of Cash by the Secured Party for which the Custodian is acting. If the Secured Party or its Custodian fails to satisfy any conditions for holding Cash as set forth above or in the Paragraph 10 Cover Sheet or if the Secured Party is not entitled to hold Cash at any time, then the Secured Party will Transfer, or cause its Custodian to Transfer, the Cash to a Qualified Institution and the Cash shall be maintained in accordance with Paragraph 6(a)(ii)(B), with the Party not eligible to hold Cash being considered the "Downgraded Party" (as defined below). Except as set forth in Paragraph 6(c), the Secured Party will be liable for the acts or omissions of its Custodian to the same extent that the Secured Party would be liable hereunder for its own acts or omissions.

(ii) Use of Cash. Notwithstanding the provisions of applicable law, if no Event of Default has occurred and is continuing with respect to the Secured Party and no Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Secured Party for which there exist any unsatisfied payment Obligations, then the Secured Party shall have the right to sell, pledge, rehypothecate, assign, invest, use, commingle or otherwise use in its business any Cash that it holds as Performance Assurance hereunder, free from any claim or right of any nature whatsoever of the Pledging Party, including any equity or right of redemption by the Pledging Party; provided, however, that if a Party or its Custodian is not eligible to hold Cash pursuant to Paragraph 6(a) (such Party shall be the "Downgraded Party" and the event that caused it or its Custodian to be ineligible to hold Cash shall be a "Credit Rating Event") then:

(A) the provisions of this Paragraph 6(a)(ii) will not apply with respect to the Downgraded Party; and

(B) the Downgraded Party shall be required to Transfer (or cause to be Transferred) not later than the close of business on the next Local Business Day following such Credit Rating Event all Cash in its possession or held on its behalf to a Qualified Institution approved by the non-Downgraded Party (which approval shall not be unreasonably withheld), to a segregated, safekeeping or custody account (the "Collateral Account") within such Qualified Institution with the title of the account indicating that the property contained therein is being held as Cash for the Downgraded Party. The Qualified Institution shall serve as Custodian with respect to the Cash in the Collateral Account, and shall hold such Cash in accordance with the terms of this Collateral Annex and for the security interest of the Downgraded Party and execute such account control agreements as are necessary or applicable to perfect the security interest of the Non-Downgraded Party therein pursuant to Section 9-314 of the Uniform Commercial Code or otherwise, and subject to such security interest, for the ownership and benefit of the non-Downgraded Party. The Qualified Institution holding the Cash will invest and reinvest or procure the investment and reinvestment of the Cash in

accordance with the written instructions of the Pledging Party, subject to the approval of such instructions by the Downgraded Party (which approval shall not be unreasonably withheld), provided that the Qualified Institution shall not be required to so invest or reinvest or procure such investment or reinvestment if an Event of Default or Potential Event of Default with respect to the Pledging Party shall have occurred and be continuing. The Downgraded Party shall have no responsibility for any losses resulting from any investment or reinvestment effected in accordance with the Pledging Party's instructions.

(iii) Interest Payments on Cash. So long as no Event of Default or Potential Event of Default with respect to the Pledging Party has occurred and is continuing, and no Early Termination Date for which any unsatisfied payment Obligations of the Pledging Party exist has occurred or been designated as the result of an Event of Default with respect to the Pledging Party, and to the extent that an obligation to Transfer Performance Assurance would not be created or increased by the Transfer, in the event that the Secured Party or its Custodian is holding Cash, the Secured Party will Transfer (or caused to be Transferred) to the Pledging Party, in lieu of any interest or other amounts paid or deemed to have been paid with respect to such Cash (all of which may be retained by the Secured Party or its Custodian), the Interest Amount. The Pledging Party shall invoice the Secured Party monthly setting forth the calculation of the Interest Amount due, and the Secured Party shall make payment thereof by the later of (A) the third Local Business Day of the first month after the last month to which such invoice relates or (B) the third Local Business Day after the day on which such invoice is received. On or after the occurrence of a Potential Event of Default or an Event of Default with respect to the Pledging Party or an Early Termination Date as a result of an Event of Default with respect to the Pledging Party, the Secured Party or its Custodian shall retain any such Interest Amount as additional Performance Assurance hereunder until the obligations of the Pledging Party under the Agreement have been satisfied in the case of an Early Termination Date or for so long as such Event of Default is continuing in the case of an Event of Default.

(b) Letters of Credit. Performance Assurance provided in the form of a Letter of Credit shall be subject to the following provisions.

(i) Unless otherwise agreed to in writing by the parties, each Letter of Credit shall be provided in accordance with Paragraph 4, and each Letter of Credit shall be maintained for the benefit of the Secured Party. The Pledging Party shall (A) renew or cause the renewal of each outstanding Letter of Credit on a timely basis as provided in the relevant Letter of Credit, (B) if the bank that issued an outstanding Letter of Credit has indicated its intent not to renew such Letter of Credit, provide either a substitute Letter of Credit or other Eligible Collateral, in each case at least twenty (20) Local Business Days prior to the expiration of the outstanding Letter of Credit, and (C) if a bank issuing a Letter of Credit shall fail to honor the Secured Party's properly documented request to draw on an outstanding Letter of Credit, provide for the benefit of the Secured Party either a substitute Letter of Credit that is issued by a bank acceptable to the Secured Party or other Eligible Collateral, in each case within one (1) Local Business Day after such refusal, provided that, as a result of the Pledging Party's failure to perform in accordance with (A), (B), or (C) above, the Pledging Party's Collateral Requirement would be greater than zero.

(ii) As one method of providing Performance Assurance, the Pledging Party may increase the amount of an outstanding Letter of Credit or establish one or more additional Letters of Credit.

(iii) Upon the occurrence of a Letter of Credit Default, the Pledging Party agrees to Transfer to the Secured Party either a substitute Letter of Credit or other Eligible Collateral, in each case on or before the first Local Business Day after the occurrence thereof (or the fifth (5th) Local Business Day after the occurrence thereof if only clause (a) under the definition of Letter of Credit Default applies).

(iv) (A) Upon or at any time after the occurrence and continuation of an Event of Default with respect to the Pledging Party, or (B) if an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party for which there exist any unsatisfied payment Obligations, then the Secured Party may draw on the entire, undrawn portion of any outstanding Letter of Credit upon submission to the bank issuing such Letter of Credit of one or more certificates specifying that such Event of Default or Early Termination Date has occurred and is continuing. Cash proceeds received from drawing upon the Letter of Credit shall be deemed Performance Assurance as security for the Pledging Party's obligations to the Secured Party and the Secured Party shall have the rights and remedies set forth in Paragraph 7 with respect to such cash proceeds. Notwithstanding the Secured Party's receipt of Cash proceeds of a drawing under the Letter of Credit, the Pledging Party shall remain liable (y) for any failure to Transfer sufficient Performance Assurance or (z) for any amounts owing to the Secured Party and remaining unpaid after the application of the amounts so drawn by the Secured Party.

(v) In all cases, the costs and expenses (including but not limited to the reasonable costs, expenses, and attorneys' fees of the Secured Party) of establishing, renewing, substituting, canceling, and increasing the amount of a Letter of Credit shall be borne by the Pledging Party.

(c) Care of Performance Assurance. Except as otherwise provided in Paragraph 6(a)(iii) and beyond the exercise of reasonable care in the custody thereof, the Secured Party shall have no duty as to any Performance Assurance in its possession or control or in the possession or control of any Custodian or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of the Performance Assurance in its possession, and/or in the possession of its agent for safekeeping, if the Performance Assurance is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Performance Assurance, or for any diminution in the value thereof, by reason of the act or omission of any Custodian selected by the Secured Party in good faith except to the extent such loss or damage is the result of such agent's willful misconduct or negligence. Unless held by a Custodian, the Secured Party shall at all times retain possession or control of any Performance Assurance Transferred to it. The holding of Performance Assurance by a Custodian for the benefit of the Secured Party shall be deemed to be the holding and possession of such Performance Assurance by the Secured Party for the purpose of perfecting the security interest in the Performance Assurance. Except as otherwise provided



in Paragraph 6(a)(ii), nothing in this Collateral Annex shall be construed as requiring the Secured Party to select a Custodian for the keeping of Performance Assurance for its benefit.

Paragraph 7. Exercise of Rights Against Performance Assurance.

(a) In the event that (i) an Event of Default with respect to the Pledging Party has occurred and is continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Pledging Party, the Secured Party may exercise any one or more of the rights and remedies provided under the Agreement, in this Collateral Annex or as otherwise available under applicable law. Without limiting the foregoing, if at any time (i) an Event of Default with respect to the Pledging Party has occurred and is continuing, or (ii) an Early Termination Date occurs or is deemed to occur as a result of an Event of Default with respect to the Pledging Party, then the Secured Party may, in its sole discretion, exercise any one or more of the following rights and remedies:

- (i) all rights and remedies available to a secured party under the Uniform Commercial Code and any other applicable jurisdiction and other applicable laws with respect to the Performance Assurance held by or for the benefit of the Secured Party;
- (ii) the right to set off any Performance Assurance held by or for the benefit of the Secured Party against and in satisfaction of any amount payable by the Pledging Party in respect of any of its Obligations;
- (iii) the right to draw on any outstanding Letter of Credit issued for its benefit; and/or
- (iv) the right to liquidate any Performance Assurance held by or for the benefit of the Secured Party through one or more public or private sales or other dispositions with such notice, if any, as may be required by applicable law, free from any claim or right of any nature whatsoever of the Pledging Party, including any right of equity or redemption by the Pledging Party (with the Secured Party having the right to purchase any or all of the Performance Assurance to be sold) and to apply the proceeds from the liquidation of such Performance Assurance to and in satisfaction of any amount payable by the Pledging Party in respect of any of its Obligations in such order as the Secured Party may elect.

(b) The Pledging Party hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as the Pledging Party's true and lawful attorney-in-fact with full irrevocable power and authority to act in the name, place and stead of the Pledging Party or in the Secured Party's own name, from time to time in the Secured Party's discretion, for the purpose of taking any and all action and executing and delivering any and all documents or instruments which may be necessary or desirable to accomplish the purposes of Paragraph 7(a).

(c) Secured Party shall be under no obligation to prioritize the order with respect to which it exercises any one or more rights and remedies available hereunder. The Pledging Party shall in all events remain liable to the Secured Party for any amount payable by the Pledging

Party in respect of any of its Obligations remaining unpaid after any such liquidation, application and set off.

(d) In addition to the provisions of Paragraph 7(a), if at any time (i) an Event of Default with respect to the Secured Party has occurred and is continuing or (ii) an Early Termination Date has occurred or been designated as a result of an Event of Default with respect to the Secured Party, then:

(1) the Secured Party will be obligated immediately to Transfer all Performance Assurance (including any Letter of Credit) and the Interest Amount, if any, to the Pledging Party;

(2) the Pledging Party may do any one or more of the following: (x) exercise any of the rights and remedies of a pledgor with respect to the Performance Assurance, including any such rights and remedies under law then in effect; (y) to the extent that the Performance Assurance or the Interest Amount is not Transferred to the Pledging Party as required in (1) above, setoff amounts payable to the Secured Party against the Performance Assurance (other than Letters of Credit) held by the Secured Party or to the extent its rights to setoff are not exercised, withhold payment of any remaining amounts payable by the Pledging Party, up to the value of any remaining Performance Assurance held by the Secured Party, until the Performance Assurance is Transferred to the Pledging Party; and (z) exercise rights and remedies available to the Pledging Party under the terms of any Letter of Credit; and

(3) the Secured Party shall be prohibited from drawing on any Letter of Credit that has been posted by the Pledging Party for its benefit.

#### Paragraph 8. Disputed Calculations

(a) If the Pledging Party disputes the amount of Performance Assurance requested by the Secured Party and such dispute relates to the amount of the Net Exposure claimed by the Secured Party, then the Pledging Party shall (i) notify the Secured Party of the existence and nature of the dispute not later than the Notification Time on the first Local Business Day following the date that the demand for Performance Assurance is made by the Secured Party pursuant to Paragraph 4, and (ii) provide Performance Assurance to or for the benefit of the Secured Party in an amount equal to the Pledging Party's own estimate, made in good faith and in a commercially reasonable manner, of the Pledging Party's Collateral Requirement in accordance with Paragraph 4. In all such cases, the Parties thereafter shall promptly consult with each other in order to reconcile the two conflicting amounts. If the Parties have not been able to resolve their dispute on or before the second Business Day following the date that the demand is made by the Secured Party, then the Secured Party's Net Exposure shall be recalculated by each Party requesting quotations from one (1) Reference Market-Maker within two (2) Business Days (taking the arithmetic average of those obtained to obtain the average Current Mark-to-Market Value; provided, that, if only one (1) quotation can be obtained, then that quotation shall be used) for the purpose of recalculating the Current Mark-to-Market Value of each Transaction in respect of which the Parties disagree as to the Current Mark-to-Market Value thereof, and the Secured Party shall inform the Pledging Party of the results of

such recalculation (in reasonable detail). Performance Assurance shall thereupon be provided, returned, or reduced, if necessary, on the next Local Business Day in accordance with the results of such recalculation.

(b) If the Secured Party disputes the amount of Performance Assurance to be reduced by the Secured Party and such dispute relates to the amount of the Net Exposure claimed by the Secured Party, then the Secured Party shall (i) notify the Pledging Party of the existence and nature of the dispute not later than the Notification Time on the first Local Business Day following the date that the demand to reduce Performance Assurance is made by the Pledging Party pursuant to Paragraph 5(a), and (ii) effect the reduction of Performance Assurance to or for the benefit of the Pledging Party in an amount equal to the Secured Party's own estimate, made in good faith and in a commercially reasonable manner, of the Pledging Party's Collateral Requirement in accordance with Paragraph 5(a). In all such cases, the Parties thereafter shall promptly consult with each other in order to reconcile the two conflicting amounts. If the Parties have not been able to resolve their dispute on or before the second Local Business Day following the date that the demand is made by the Pledging Party, then the Secured Party's Net Exposure shall be recalculated by each Party requesting quotations from one (1) Reference Market-Maker within two (2) Business Days (taking the arithmetic average of those obtained to obtain the average Current Mark-to-Market Value; provided, that, if only one (1) quotation can be obtained, then that quotation shall be used) for the purpose of recalculating the Current Mark-to-Market Value of each Transaction in respect of which the Parties disagree as to the Current Mark-to-Market Value thereof, and the Secured Party shall inform the Pledging Party of the results of such recalculation (in reasonable detail). Performance Assurance shall thereupon be provided, returned, or reduced, if necessary, on the next Local Business Day in accordance with the results of such recalculation.

Paragraph 9. Covenants; Representations and Warranties; Miscellaneous.

(a) The Pledging Party will execute and deliver to the Secured Party (and to the extent permitted by applicable law, the Pledging Party hereby authorizes the Secured Party to execute and deliver, in the name of the Pledging Party or otherwise) such financing statements, assignments and other documents and do such other things relating to the Performance Assurance and the security interest granted under this Collateral Annex, including any action the Secured Party may deem necessary or appropriate to perfect or maintain perfection of its security interest in the Performance Assurance, and the Pledging Party shall pay all costs relating to its Transfer of Performance Assurance and the maintenance and perfection of the security interest therein.

(b) On each day on which Performance Assurance is held by the Secured Party and/or its Custodian under the Agreement and this Collateral Annex, the Pledging Party hereby represents and warrants that:

(i) the Pledging Party has good title to and is the sole owner of such Performance Assurance, and the execution, delivery and performance of the covenants and agreements of this Collateral Annex, do not result in the creation or imposition of any lien or security interest upon any of its assets or properties, including, without limitation,

the Performance Assurance, other than the security interests and liens created under the Agreement and this Collateral Annex;

(ii) upon the Transfer of Performance Assurance by the Pledging Party to the Secured Party and/or its Custodian, the Secured Party shall have a valid and perfected first priority continuing security interest therein, free of any liens, claims or encumbrances, except those liens, security interests, claims or encumbrances arising by operation of law that are given priority over a perfected security interest; and

(iii) it is not and will not become a party to or otherwise be bound by any agreement, other than the Agreement and this Collateral Annex, which restricts in any manner the rights of any present or future holder of any of the Performance Assurance with respect hereto.

(c) This Collateral Annex has been and is made solely for the benefit of the Parties and their permitted successors and assigns, and no other person, partnership, association, corporation or other entity shall acquire or have any right under or by virtue of this Collateral Annex.

(d) The Pledging Party shall pay on request and indemnify the Secured Party against any taxes (including without limitation, any applicable transfer taxes and stamp, registration or other documentary taxes), assessments, or charges that may become payable by reason of the security interests, general first lien and right of offset granted under this Collateral Annex or the execution, delivery, performance or enforcement of the Agreement and this Collateral Annex, as well as any penalties with respect thereto (including, without limitation costs and reasonable fees and disbursements of counsel). The Parties each agree to pay the other Party for all reasonable expenses (including without limitation, court costs and reasonable fees and disbursements of counsel) incurred by the other in connection with the enforcement of, or suing for or collecting any amounts payable by it under, the Agreement and this Collateral Annex.

(e) No failure or delay by either Party hereto in exercising any right, power, privilege, or remedy hereunder shall operate as a waiver thereof.

(f) The headings in this Collateral Annex are for convenience of reference only, and shall not affect the meaning or construction of any provision thereof.



SCHEDULE 1 to Collateral Annex

IRREVOCABLE STANDBY LETTER OF CREDIT FORMAT

DATE OF ISSUANCE: \_\_\_\_\_

[Address]

Re: Credit No. \_\_\_\_\_

We hereby establish our Irrevocable Transferable Standby Letter of Credit in your favor for the account of \_\_\_\_\_ (the "Account Party"), for the aggregate amount not exceeding \_\_\_\_\_ United States Dollars (\$ \_\_\_\_\_), available to you at sight upon demand at our counters at (Location) on or before the expiration hereof against presentation to us of one or more of the following statements, dated and signed by a representative of the beneficiary:

1. "An Event of Default (as defined in the Master Purchase and Sale Agreement dated as of \_\_\_\_\_ between beneficiary and Account Party, as the same may be amended (the "Master Agreement")) has occurred and is continuing with respect to Account Party under the Master Agreement and no Event of Default has occurred and is continuing with respect to the beneficiary of this Letter of Credit. Wherefore, the undersigned does hereby demand payment of the entire undrawn amount of the Letter of Credit"; or
2. "An Early Termination Date (as defined in the Master Purchase and Sale Agreement dated as of \_\_\_\_\_ between beneficiary and Account Party, as the same may be amended (the "Master Agreement")) has occurred and is continuing with respect to Account Party under the Master Agreement and no Event of Default has occurred and is continuing with respect to the beneficiary of this Letter of Credit. Wherefore, the undersigned does hereby demand payment of the entire undrawn amount of the Letter of Credit".

This Letter of Credit shall expire on \_\_\_\_\_.

The amount which may be drawn by you under this Letter of Credit shall be automatically reduced by the amount of any drawings paid through the Issuing Bank referencing this Letter of Credit No. \_\_\_\_\_. Partial drawings are permitted hereunder.

We hereby agree with you that documents drawn under and in compliance with the terms of this Letter of Credit shall be duly honored upon presentation as specified.

This Letter of Credit shall be governed by the Uniform Customs and Practice for Documentary Credits, 1993 Revision, International Chamber of Commerce Publication No. 500 (the "UCP"), except to the extent that the terms hereof are inconsistent with the provisions of the UCP, including but not limited to Articles 13(b) and 17 of the UCP, in which case the terms of this Letter of Credit shall govern.

With respect to Article 13(b) of the UCP, the Issuing Bank shall have a reasonable

amount of time, not to exceed three (3) banking days following the date of its receipt of documents from the beneficiary, to examine the documents and determine whether to take up or refuse the documents and to inform the beneficiary accordingly.

In the event of an Act of God, riot, civil commotion, insurrection, war or any other cause beyond our control that interrupts our business (collectively, an "Interruption Event") and causes the place for presentation of this Letter of Credit to be closed for business on the last day for presentation, the expiry date of this Letter of Credit will be automatically extended without amendment to a date thirty (30) calendar days after the place for presentation reopens for business.

This Letter of Credit is transferable, and we hereby consent to such transfer, but otherwise may not be amended, changed or modified without the express written consent of the beneficiary, the Issuing Bank and the Account Party.

[BANK SIGNATURE]

**PARAGRAPH 10**  
**to the**  
**COLLATERAL ANNEX**  
**to the**  
**EI MASTER POWER PURCHASE AND SALE AGREEMENT**  
**BETWEEN**  
**SOUTH KENTUCKY RURAL ELECTRIC COOPERATIVE**  
**CORPORATION (PARTY A)**  
**And**  
**MORGAN STANLEY CAPITAL GROUP INC. (PARTY B)**

**CREDIT ELECTIONS COVER SHEET**

**Paragraph 10. Elections and Variables**

**I. Collateral Threshold.**

**A. Party A Collateral Threshold.**

- The Collateral Threshold for Party A shall be the amount set forth under the “Threshold Amount” in the table below opposite the Calendar Year on the relevant date of determination; provided, however, that the Collateral Threshold for Party A shall be zero (\$0) upon the occurrence and during the continuance of a Credit Event, an Event of Default or a Potential Event of Default with respect to Party A; and provided further that, in the event that, and on the date that, Party A cures the Credit Event or Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Credit Event or Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from zero to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

| <b>Calendar Year</b> | <b>Threshold Amount</b> |
|----------------------|-------------------------|
| 2017                 |                         |
| 2018                 |                         |
| 2019                 |                         |
| 2020                 |                         |
| 2021                 |                         |
| 2022                 |                         |
| 2023                 |                         |
| 2024                 |                         |
| 2025                 |                         |
| 2026                 |                         |
| 2027                 |                         |
| 2028                 |                         |
| 2029                 |                         |
| 2030                 |                         |
| 2031                 |                         |

|      |  |
|------|--|
| 2032 |  |
| 2033 |  |
| 2034 |  |
| 2035 |  |
| 2036 |  |
| 2037 |  |
| 2038 |  |
| 2039 |  |

“Credit Event” shall mean, with respect to Party A, any of the following events or circumstances: (a) Party A’s TIER Ratio shall fall below a high average TIER Ratio of 1.25 using two of the last three calendar years; (b) Party A’s DSC Ratio shall fall below a high average DSC Ratio of 1.25 using two of the last three calendar years; or (c) Party A suffers a Regulatory Event.

“CFC” means the National Rural Utilities Cooperative Finance Corporation.

“Change in Law” means, for purposes of this Collateral Annex (i) a material change or the enactment, promulgation or issuance or material amendment of any constitution, charter, act, statute, regulation, ordinance, order (including any order waiving application of a legal requirement as to a Party), ruling, rule or other applicable law, or (ii) other legislative or administrative action of any Government Authority of competent jurisdiction or a final decree, judgment, or order of a court of competent jurisdiction (including temporary restraining orders) occurring subsequent to the Trade Date, in each case related to the regulation, generation, transmission, transportation or consumption of energy, its emissions or by-products, or of the regulation of the environment related to any of the foregoing. For purposes of this definition, no enactment, adoption, promulgation, amendment or modification of an Applicable Law shall be considered a Change in Law if, as of the Trade Date, (1) such Applicable Law would have directly affected the performance of the obligations hereunder by either Party after the Trade Date in the absence of this Agreement and (2) either such Applicable Law was (A) officially proposed by the responsible agency and promulgated in final form in the Federal Register or equivalent federal, state or local publication and thereafter becomes effective without further action or (B) enacted into law or promulgated by the appropriate federal, state or local body before the Trade Date, and (i) the comment period with respect to which expired on or before the Trade Date and (ii) any required hearings concluded on or before the Trade Date, in accordance with applicable administrative procedures and which thereafter becomes effective without further action. For the avoidance of doubt, a “Change in Law” hereunder shall not include any change with respect to the regulation of banks or financial firms or their affiliates, nor with respect to the treatment of such entities or their contracts in bankruptcy, insolvency or receivership proceedings.

“CoBank” means CoBank, ACB, an agricultural credit bank organized pursuant to the Farm Credit Act of 1971.

“DSC Ratio” means, for Party A for any calendar year, the debt service coverage ratio set forth in Party A’s annual financial report on Form 7 to Party A’s primary Lender. In the event Party A’s Lender ceases to use Form 7 or its equivalent, the Debt Service Coverage Ratios shall be as calculated in the same manner as calculated by Party A’s Lender.

“Form 7” means the Financial and Statistical Report on Form 7, or its successor or equivalent, as adopted for use by the RUS, for the applicable calendar year.

“Lender” means, from time-to-time throughout the Term, the entity having at the time the largest principal amount loaned to Party A then outstanding from the following list of entities: (a) RUS, (b) CFC (c) CoBank, or (d) in the event Party A has no outstanding

obligations with the foregoing, any other bank, savings-and-loan, surety, financial institution or governmental or quasi-governmental entity acting as a lender of borrowed money or that has extended lines of credit (including for letters of credit) to the applicable Party or its Guarantor.

“Regulatory Event” means a Change in Law which results in the creation of retail access opportunities for one or more classes of consumers of electric energy in Party A’s service territory and thereafter the total number of members taking electric service from Party declines by 13,400 or more from the Trade Date.

“RUS” means the Rural Utilities Service, a Division of the United States Department of Agriculture.

“TIER Ratio” means, for Party A for any calendar year, the times interest earned ratio set forth in Party A’s annual financial report on Form 7 to Party A’s primary Lender. In the event Party A’s Lender ceases to use Form 7 or its equivalent, the TIER Ratio shall be as calculated in the same manner as calculated by Party A’s Lender.

- (a) The amount (the “Threshold Amount”) set forth below under the heading “Party A Collateral Threshold” opposite the Credit Rating for Party A on the relevant date of determination, and if Party A’s Credit Ratings shall not be equivalent, the lower Credit Rating shall govern or (b) zero if on the relevant date of determination Party A does not have a Credit Rating from the rating agency(ies) specified below or an Event of Default or a Potential Event of Default with respect to Party A has occurred and is continuing; provided, however, in the event that, and on the date that, Party A cures the Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from zero to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand:

| <b><u>Party A</u></b>              |                                     |  |                                     |
|------------------------------------|-------------------------------------|--|-------------------------------------|
| <b><u>Collateral Threshold</u></b> | <b><u>S&amp;P Credit Rating</u></b> |  | <b><u>Moody’s Credit Rating</u></b> |

The foregoing paragraph notwithstanding, so long as Party A is not experiencing an Event of Default or Potential Event of Default, its Threshold Amount shall be [an amount equal to an estimated 12 months of payments owed to MSCG]. The Collateral Threshold for Party A shall be [an amount equal to an estimated 3 months of payments owed to MSCG] upon the occurrence and during the continuance of an Event of Default or a Potential Event of Default with respect to Party A; and provided further that, in the event that, and on the date that, Party A cures the Potential Event of Default on or prior to the date that Party A is required to post Performance Assurance to Party B pursuant to a demand made by Party B pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party A shall automatically increase from the amount set forth herein to the Threshold Amount and (ii) Party A shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

- The amount of the Guaranty Agreement dated \_\_\_\_\_ from \_\_\_\_\_, as amended from time to time but in no event shall Party B’s Collateral Threshold be greater than \$\_\_\_\_\_.

**B. Party B Collateral Threshold.**

- \$\_\_\_\_\_ (the “Threshold Amount”); provided, however, that the Collateral Threshold for Party B shall be zero upon the occurrence and during the continuance of an Event of Default

or a Potential Event of Default with respect to Party B; and provided further that, in the event that, and on the date that, Party B cures the Potential Event of Default on or prior to the date that Party B is required to post Performance Assurance to Party A pursuant to a demand made by Party A pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party B shall automatically increase from zero to the Threshold Amount and (ii) Party B shall be relieved of its obligation to post Performance Assurance pursuant to such demand.

- X (a) The amount (the "Threshold Amount") set forth below under the heading "Party B Collateral Threshold" opposite the Credit Rating for Party B's Guarantor on the relevant date of determination, and if Party B's Guarantor's Credit Ratings shall not be equivalent, the lower Credit Rating shall govern or (b) zero if on the relevant date of determination its Guarantor does not have a Credit Rating from the rating agency(ies) specified below or an Event of Default or a Potential Event of Default with respect to Party B has occurred and is continuing; provided, however, in the event that, and on the date that, Party B cures the Potential Event of Default on or prior to the date that Party B is required to post Performance Assurance to Party A pursuant to a demand made by Party A pursuant to the provisions of the Collateral Annex on or after the occurrence of such Potential Event of Default, (i) the Collateral Threshold for Party B shall automatically increase from zero to the Threshold Amount and (ii) Party B shall be relieved of its obligation to post Performance Assurance pursuant to such demand:

| <u>Party B<br/>Collateral Threshold</u> | <u>S&amp;P Credit Rating</u>                         |
|-----------------------------------------|------------------------------------------------------|
|                                         | A+ and above<br>A- / A<br>BBB- to BBB+<br>Below BBB- |

- The amount of the Guaranty Agreement dated \_\_\_\_\_ from \_\_\_\_\_, as amended from time to time but in no event shall Party B's Collateral Threshold be greater than \$\_\_\_\_\_.

**II. Eligible Collateral and Valuation Percentage.**

The following items will qualify as "Eligible Collateral" for the Party specified:

|     |                                                                                                                                                      | <u>Party<br/>A</u> | <u>Party<br/>B</u> | <u>Valuation Percentage</u>                                                                                                                                                                                                                                                                   |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (A) | Cash                                                                                                                                                 | [X]                | [X]                | 100%                                                                                                                                                                                                                                                                                          |
| (B) | Letters of Credit issued by a Qualified Issuer                                                                                                       | [X]                | [X]                | 100% unless either (i) a Letter of Credit Default shall have occurred and be continuing with respect to such Letter of Credit, or (ii) twenty (20) or fewer Business Days remain prior to the expiration of such Letter of Credit, in which cases the Valuation Percentage shall be zero (0). |
| (C) | Letter of Credit issued by National Rural Utilities Cooperative Finance Corporation ("CFC") or CoBank as long as CFC or CoBank, as applicable, has a | [X]                | [X]                | 100% unless either (i) a Letter of Credit Default shall have occurred and be continuing with respect to such Letter of Credit, or (ii) twenty (20) or fewer Business Days remain prior to the expiration of such Letter of Credit,                                                            |

Credit Rating of at least (i) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (ii) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both.

in which cases the Valuation Percentage shall be zero (0).

- |     |                                                                                                                                                                                    |     |     |     |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|-----|
| (D) | Negotiable debt obligations (other than interest-only securities) issued by the U.S. Treasury Department having a remaining maturity of more than 1 year but not more than 5 years | [ ] | [ ] | 96% |
| (E) | Negotiable debt obligations (other than interest-only securities) issued by the U.S. Treasury Department having a remaining maturity of more than 5 years                          | [ ] | [ ] | 94% |

**III. Independent Amount.**

**A. Party A Independent Amount.**

- X Party A shall have a Fixed Independent Amount of [REDACTED]. If the Fixed Independent Amount option is selected for Party A, then Party A (which shall be a Pledging Party with respect to the Fixed IA Performance Assurance) will be required to Transfer or cause to be Transferred to Party B (which shall be a Secured Party with respect to the Fixed IA Performance Assurance) Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Fixed IA Performance Assurance"). The Fixed IA Performance Assurance shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the Agreement, and shall not be taken into account when calculating Party A's Collateral Requirement pursuant to the Collateral Annex. Except as expressly set forth above, the Fixed IA Performance Assurance shall be held and maintained in accordance with, and otherwise be subject to, Paragraphs 2, 5(b), 5(c), 6, 7 and 9 of the Collateral Annex.
- Party A shall have a Full Floating Independent Amount of \$\_\_\_\_\_. If the Full Floating Independent Amount option is selected for Party A, then for purposes of calculating Party A's Collateral Requirement pursuant to Paragraph 3 of the Collateral Annex, such Full Floating Independent Amount for Party A shall be added by Party B to its Exposure Amount for purposes of determining Net Exposure pursuant to Paragraph 3(a) of the Collateral Annex.
- Party A shall have a Partial Floating Independent Amount of \$\_\_\_\_\_. If the Partial Floating Independent Amount option is selected for Party A, then Party A will be required to Transfer or cause to be Transferred to Party B Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Partial Floating IA Performance Assurance") if at any time Party A otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the Collateral Annex. The Partial Floating IA Performance Assurance shall not be reduced so long as Party A has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall not

be taken into account when calculating a Party's Collateral Requirements pursuant to the Collateral Annex. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the Collateral Annex.

**B. Party B Independent Amount.**

- Party B shall have a Fixed Independent Amount of [REDACTED]. If the Fixed Independent Amount Option is selected for Party B, then Party B (which shall be a Pledging Party with respect to the Fixed IA Performance Assurance) will be required to Transfer or cause to be Transferred to Party A (which shall be a Secured Party with respect to the Fixed IA Performance Assurance) Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Fixed IA Performance Assurance"). The Fixed IA Performance Assurance shall not be reduced for so long as there are any outstanding obligations between the Parties as a result of the Agreement, and shall not be taken into account when calculating Party B's Collateral Requirement pursuant to the Collateral Annex. Except as expressly set forth above, the Fixed IA Performance Assurance shall be held and maintained in accordance with, and otherwise be subject to, Paragraphs 2, 5(b), 5(c), 6, 7 and 9 of the Collateral Annex.
- Party B shall have a Full Floating Independent Amount of \$ \_\_\_\_\_. If the Full Floating Independent Amount Option is selected for Party B then for purposes of calculating Party B's Collateral Requirement pursuant to Paragraph 3 of the Collateral Annex, such Full Floating Independent Amount for Party B shall be added by Party A to its Exposure Amount for purposes of determining Net Exposure pursuant to Paragraph 3(a) of the Collateral Annex.
- Party B shall have a Partial Floating Independent Amount of \$ \_\_\_\_\_. If the Partial Floating Independent Amount option is selected for Party B, then Party B will be required to Transfer or cause to be Transferred to Party A Performance Assurance with a Collateral Value equal to the amount of such Independent Amount (the "Partial Floating IA Performance Assurance") if at any time Party B otherwise has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount) pursuant to Paragraph 3 of the Collateral Annex. The Partial Floating IA Performance Assurance shall not be reduced for so long as Party B has a Collateral Requirement (not taking into consideration the Partial Floating Independent Amount). The Partial Floating Independent Amount shall not be taken into account when calculating a Party's Collateral Requirements pursuant to the Collateral Annex. Except as expressly set forth above, the Partial Floating Independent Amount shall be held and maintained in accordance with, and otherwise be subject to, the Collateral Annex.

**IV. Minimum Transfer Amount.**

- A. Party A Minimum Transfer Amount: [REDACTED]
- B. Party B Minimum Transfer Amount: [REDACTED]

**V. Rounding Amount.**

- A. Party A Rounding Amount: [REDACTED]
- B. Party B Rounding Amount: [REDACTED]



**VI. Administration of Cash Collateral.**

**A. Party A Eligibility to Hold Cash.**

- Party A shall not be entitled to hold Performance Assurance in the form of Cash. Performance Assurance in the form of Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B) of the Collateral Annex. Party A shall pay to Party B in accordance with the terms of the Collateral Annex the amount of interest it receives from the Qualified Institution on any Performance Assurance in the form of Cash posted by Party B.
- Party A shall be entitled to hold Performance Assurance in the form of Cash provided that the following conditions are satisfied: (1) it is not subject to an Event of Default or Potential Event of Default, (2) a Downgrade Event has not occurred with respect to Party A, and (3) Cash shall be held only in any jurisdiction within the United States. To the extent Party A is entitled to hold Cash, the Interest Rate payable to Party B on Cash shall be as selected below:

**Party A Interest Rate.**

- Federal Funds Effective Rate - the rate for that day opposite the caption "Federal Funds (Effective)" as set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.
- Other - \_\_\_\_\_

**B. Party B Eligibility to Hold Cash.**

- Party B shall not be entitled to hold Performance Assurance in the form of Cash. Performance Assurance in the form of Cash shall be held in a Qualified Institution in accordance with the provisions of Paragraph 6(a)(ii)(B) of the Collateral Annex. Party B shall pay to Party A in accordance with the terms of the Collateral Annex the amount of interest it receives from the Qualified Institution on any Performance Assurance in the form of Cash posted by Party A.
- Party B shall be entitled to hold Performance Assurance in the form of Cash provided that the following conditions are satisfied: (1) it is not subject to an Event of Default or Potential Event of Default, (2) a Downgrade Event has not occurred with respect to Party B's guarantor, and (3) Cash shall be held only in any jurisdiction within the United States. To the extent Party B is entitled to hold Cash, the Interest Rate payable to Party A on Cash shall be as selected below:

**Party B Interest Rate.**

- Federal Funds Effective Rate - the rate for that day opposite the caption "Federal Funds (Effective)" as set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Board of Governors of the Federal Reserve System.
- Other - \_\_\_\_\_

**VII. Notification Time.**

- Other – 10:00 AM, Eastern Time

## VIII. General.

With respect to the Collateral Threshold, Independent Amount, Minimum Transfer Amount and Rounding Amount, if no selection is made in this Cover Sheet with respect to a Party, then the applicable amount in each case for such Party shall be zero (0). In addition, with respect to the "Administration of Cash Collateral" section of this Paragraph 10, if no selection is made with respect to a Party, then such Party shall not be entitled to hold Performance Assurance in the form of Cash and such Cash, if any, shall be held in a Qualified Institution pursuant to Paragraph 6(a)(ii)(B) of the Collateral Annex. If a Party is eligible to hold Cash pursuant to a selection in this Paragraph 10 but no Interest Rate is selected, then the Interest Rate for such Party shall be the Federal Funds Effective Rate as defined in Section VI of this Paragraph 10.

## IX. Collateral Annex Amendments

### A. Definitions

- "Letter of Credit" shall be deleted in its entirety and replaced with the following:  
"Letter of Credit" shall have the meaning ascribed to it in the Master Agreement Cover Sheet."
- "Credit Rating Event" shall be amended by replacing "6(a)(iii)" with "6(a)(ii)".
- "Downgraded Party" shall be amended by replacing "6(a)(i)" with "6(a)(ii)".
- "Letter of Credit Default" shall be amended by deleting "or" in the third line and replacing it with "and".
- "Performance Assurance" shall be amended by replacing "6(a)(iv)" with "6(a)(iii)".
- "Secured Party" shall be amended by replacing "3(b)" with "3(a)".
- "Qualified Institution" shall be deleted in its entirety and replaced with the following:  
"Qualified Institution" means a commercial bank or trust company or financial institution, in each case not affiliated with either Party A or Party B, organized under the laws of the United States or a political subdivision thereof, with (i) a Credit Rating of at least (a) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (b) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, and (ii) having assets of at least \$10,000,000,000; or, as it relates to Party A, the Cooperative Finance Corporation, CoBank and the Rural Utilities Service."
- "Reference Market-Maker" shall be amended by adding the following phrase at the end thereof: "; provided, however, such leading dealers shall not be Party A or Party B or Affiliates of Party A or Party B".

### B. General Amendments

- The opening paragraph shall be amended by replacing "Paragraph 10 Elections" with "Paragraph 10 Cover Sheet".
- For purposes of the Collateral Annex, "setoff", "set off" and "offset" shall have the same meaning.
- Paragraph 2, "Encumbrance; Grant of Security Interest", shall be amended by adding the following language as the last sentence thereof:

“Notwithstanding any language to the contrary in this Paragraph 2, the Parties recognize that Party A’s assets are subject to certain mortgages and other debt agreements, including with the Cooperative Finance Corporation, CoBank and Rural Utilities Service. This section shall not be read to require Party A to act inconsistently with its obligations under such mortgages and other debt agreements and Party A shall not be deemed to be in breach of this Master Agreement by virtue of its compliance with the requirements of its mortgage and debt agreements.”

- Paragraph 3(b)(2) shall be amended by inserting “that has not been returned to the Pledging Party pursuant to this Collateral Annex” after the phrase “the Secured Party” in the first line.
- Paragraph 5(a) shall be amended by deleting “before the Notification Time on a Business Day” and replacing it with “before the Notification Time on a Local Business Day” and by inserting “so long as the amount of the requested reduction is equal to or greater than the Minimum Transfer Amount” after “the Pledging Party for the benefit of the Secured Party” in the third line thereof.
- Paragraph 6(a)(ii)(A) is amended by inserting “(other than subparagraph (B) below)” after “the provisions of this Paragraph 6(a)(ii)” in the first line thereof.
- Paragraph 6(a)(ii)(B) shall be amended by (1) replacing “on the next Local Business Day” with “on the fifth (5th) Local Business Day”; (2) in the eleventh line, changing “Non-Downgraded Party” to “Downgraded Party”; and (3) at the end thereof adding “In the event the Collateral Account is not established or otherwise ready to receive the Transfer of the Cash Performance Assurance by the close of business on the fifth (5th) Local Business Day, the Pledging Party shall either (a) temporarily waive the requirement that such Cash be held in a Collateral Account until the Parties, working diligently together and with the Custodian, are able to establish the Collateral Account and Transfer the Cash Performance Assurance into the Collateral Account, or (b) substitute the Cash Performance Assurance for other Performance Assurance of equal Collateral Value in accordance with Paragraph 5(b).”
- Paragraph 6(a)(iii) (“Interest Payments on Cash”) is amended so that all references therein to “the third Local Business Day” shall read “the fifth (5th) Local Business Day”.
- Paragraph 6(b)(iii) shall be amended by replacing “first” in line three, with “second”.
- A new Paragraph 6(d) is added as follows:

“(d) Negative Interest Rates. If the Interest Amount for an Interest Period would be a negative number it will be deemed to be zero, and for so long as the Interest Amount is a negative number then within 15 Business Days the Pledging Party will substitute and maintain, in accordance with the provisions of Paragraph 5(b), a Letter of Credit for any Eligible Collateral it has previously Transferred in the form of Cash, and upon receipt of such substitute Letter of Credit the Cash shall be returned in accordance with Paragraph 5(b).”
- Paragraph 7(a)(iv) shall be amended by inserting “, in a commercially reasonable manner,” between “liquidate” and “any” in the first line.
- Paragraph 8(b) shall be amended in the first line by replacing “to be reduced by the Secured Party” with “to be reduced by the Pledging Party” immediately after “Performance Assurance”.
- Paragraph 8 is amended by inserting the following new subparagraph 8(c) at the end thereof:

“(c) Each quotation from a Reference Market-maker will be for an amount, if any, that would be paid to the Party requesting the quotation (expressed as a negative number) or by the Party requesting the quotation (expressed as a positive number) in consideration of an agreement between such Party (taking into account this Collateral Annex and the existence of any Guarantor with respect to the obligations of such Party) and the quoting Reference Market-maker to enter into a transaction that would have the effect of preserving for the Party requesting the quotation the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the Parties in respect of such Transaction

or group of Transactions. The costs of retaining Reference Market-makers for the purposes of this Paragraph 8 shall be borne equally by the Secured Party and the Pledging Party. The determination made by such Reference Market-makers shall be binding and conclusive on the Parties absent manifest error.”

**[The remainder of this page is intentionally left blank]**

Execution

IN WITNESS WHEREOF, the Parties have caused this Paragraph 10 the Collateral Annex the EEI Master Power Purchase and Sale Agreement to be executed as of the date first above written.

Party A- **South Kentucky Rural Electric Cooperative Corporation**

*John*

Party B- **Morgan Stanley Capital Group Inc.**

By: \_\_\_\_\_

Name: **Dennis Holt**

Title: **President and Chief Executive Officer**

By: Charmaine Fearon

Name: Charmaine Fearon

Title: Authorized Signatory

Execution

IN WITNESS WHEREOF, the Parties have caused this Paragraph 10 the Collateral Annex the EEI Master Power Purchase and Sale Agreement to be executed as of the date first above written.

Party A- **South Kentucky Rural Electric Cooperative Corporation**

Party B- **Morgan Stanley Capital Group Inc.**

By: Dennis Holt

By: \_\_\_\_\_

Name: **Dennis Holt**

Name: \_\_\_\_\_

Title: **President and Chief Executive Officer**

Title: \_\_\_\_\_

**From:** Gaines, Luke  
**To:** [Michelle Herrman](mailto:Michelle.Herrman@skrecc.com)  
**Subject:** FW: Collateral for Purchase Power Agreement  
**Date:** Thursday, March 1, 2018 4:26:34 PM  
**Attachments:** [image001.png](#)

---

Michelle,

Items 1, 2 (we do have), and 5, would be sufficient for our purposes, so when you get the chance please send 1 and 5.

Thanks,

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Thursday, March 01, 2018 4:21 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
**Subject:** RE: Collateral for Purchase Power Agreement

Luke,

Would you need each piece of the contract? There are several components, some of which I believe are standard documents. Our contract components include,

1. Master Power Purchase and Sale Agreement
2. Collateral Annex (Which you have)
3. IECA August 2012 Dodd-Frank Agreement
4. IECA March 2013 Dodd-Frank Agreement
5. Financial Capacity Confirmation
6. Firm Physical Energy Confirmation
7. Morgan Stanley Parent Guaranty
8. Morgan Stanley Secretary's Certificate

Please let me know which you feel would need to be provided and I can send them to you quickly.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337  
Cell: 606-875-8041



---

**From:** Gaines, Luke [<mailto:LGaines@cobank.com>]  
**Sent:** Thursday, March 1, 2018 3:36 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** FW: Collateral for Purchase Power Agreement

Michelle,

I confirmed with our legal team, that you do not need our formal approval, but we would need a copy of the PPA to review for any material issues.

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Wednesday, January 03, 2018 5:12 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
**Subject:** Collateral for Purchase Power Agreement

Luke,

I hope you has a good holiday!

I am following up on our discussion regarding collateral for our 20 year Purchase Power Agreement with Morgan Stanley.

I am forwarding to you the Collateral Annex of that contract. If you focus on the collateral requirements beginning on Page 17 of this pdf, it will outline the thresholds for the collateral and the type of collateral that we can provide.

Our collateral requirements will be a moving target throughout the life of this contract. Similarly, our TIER and DSC will dictate the requirements as well.

As I mentioned on the phone, we are considering establishing a master letter of credit as a way to be fluid with our required collateral requirements. As the amount of collateral can fluctuate, we would like to consider the possibility of a master letter of credit in the amount of \$100 million. From this master we would like to draw the letter of credit up to this amount to provide to Morgan Stanley upon request. We have a short turn around time to be able to provide them with a letter of credit- one to five days depending on the circumstances.



We have some time to work this out, as the entire agreement must be approved by the Kentucky PSC as well as RUS.

I would definitely like your thoughts on the best way to ensure that we have the necessary collateral. If you have any different suggestions after you read the requirements, I would appreciate the opportunity to discuss them with you. Likewise, if you need more information, please let me know.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



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**From:** Gaines, Luke  
**To:** [Michelle Herrman](#)  
**Subject:** RE: CoBank Letter of Credit - South Kentucky  
**Date:** Friday, January 26, 2018 2:19:30 PM  
**Attachments:** [image001.png](#)

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In these situations, usually the letter of credit is reviewed weekly and only adjusted weekly. On the day of review if a size change is needed you simply email me and/or our Trade Services group (they actually handle the letter of credit) and request the change and provide your letter of credit number. We send an amended document to you for verification and execution. Once executed we send the amended document to the beneficiary. We can usually take care of this on the same day, assuming the request comes in by mid-day or so. In instances of reducing the size of the letter of credit, we have to get validation from the beneficiary first, so we are at their mercy timing wise. Usually they turn them around same day or within a day or two.

As for the letter of credit fee. In this case we would do the fee in arrears each quarter rather than an upfront annual fee. This simplifies transactions as the size could change several times during the quarter creating several debits and credits.

Would you like me to set up a call with John? Or do you prefer to reach out to him?

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Friday, January 26, 2018 1:58 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
**Subject:** RE: CoBank Letter of Credit - South Kentucky

Luke,

Yes, this does sound very similar to our collateral situation. How did CoBank handle the Margin call on the LC and what was the turn-around time?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337  
Cell: 606-875-8041



---

**From:** Gaines, Luke [mailto:[LGaines@cobank.com](mailto:LGaines@cobank.com)]  
**Sent:** Friday, January 26, 2018 10:15 AM

**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** CoBank Letter of Credit - South Kentucky

Michelle,

John Porter would be happy to discuss how their letter of credit was used in their power supply agreement. He briefly describes their situation in the email below, and I believe it is similar to your arrangement. I should mention that he recently retired, but still sounds very interested in helping out a fellow coop. His email is [chaser@bentonrea.com](mailto:chaser@bentonrea.com) if you would like to reach out to him directly. If you would prefer I try to set up a conference call, just let me know a couple of times that work for you and I will work on putting together a conference call.

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

-----Original Message-----

From: John Porter [<mailto:chaser@bentonrea.com>]  
Sent: Thursday, January 25, 2018 3:10 PM  
To: Donner, John  
Cc: [speedracer@bentonrea.com](mailto:speedracer@bentonrea.com)  
Subject: Re: CoBank

Hi John! - Good to hear from you!!

Steve mentioned that you are working with one of your customers that may have a power supply deal similar to what we have with Powerex. I have attempted to explain just a bit about how our LC works with Powerex. If I have missed the mark - please let me know.

Typically Powerex (Seller) agrees to an amount based upon the good faith and credit of the cooperative (Buyer). In our case the cooperative and Powerex agreed to \$5M based upon the good faith and credit of Benton REA and Benton REA agreed to \$50M based upon the good faith and credit of Powerex. So when the market price exceeds or is less than either of these threshold amounts in total - the other party relies on the LC for the difference. So in our case when the market price was LESS than the contract price by a total greater than \$5M (Price differential per MWH X total MWH of the contract) Benton REA relied on the LC arrangement that Benton REA with CoBank for the difference. Powerex checks this differential no less than once per week (sometimes more if they think it is necessary) and if the market is going down the (BUYER) would receive a margin call to increase the LC amount. In our agreement with Powerex the rounding amount for purposes of the LC was \$250,000.

If the Market price is GREATER than the contract price then the Buyer would be the one who would require the SELLER to post an LC for the amount that the total value (Price differential per MWH X Total MWH of the contract) of the differential exceeds the agreed upon good faith and credit of the

SELLER (in our case \$50M). Given what market prices are today - an agreed upon contract price will be much closer to zero than what the prices were in 2008 - when we did our deal with Powerex and CoBank so the exposure to the BUYER (and CoBank) will be quite a bit less than our deal and numbers should be smaller.

It used to be that a Buyer and Seller just shook hands and the deal was done. But ever since the California debacle in 2001 Letters of Credit are quite popular in an effort to keep the parties honest.

Steve - Please look at this and see where I may be incorrect.

Take John!

jp

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**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** RE: Collateral for Purchase Power Agreement  
**Date:** Thursday, January 4, 2018 9:23:00 AM  
**Attachments:** [image001.png](#)

---

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Gaines, Luke [mailto:LGaines@cobank.com]  
**Sent:** Thursday, January 04, 2018 9:01 AM  
**To:** Michelle Herrman <michelleh@skrecc.com>  
**Subject:** RE: Collateral for Purchase Power Agreement

Michelle,

We enjoyed the holidays, I hope your family did as well. Thank you for the information. I will talk this through with some of my team members and get back to you with our thoughts.

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Wednesday, January 03, 2018 5:12 PM  
**To:** Gaines, Luke  
**Subject:** Collateral for Purchase Power Agreement

Luke,

I hope you has a good holiday!

I am following up on our discussion regarding collateral for our 20 year Purchase Power Agreement with Morgan Stanley.

I am forwarding to you the Collateral Annex of that contract. If you focus on the collateral requirements beginning on Page 17 of this pdf, it will outline the thresholds for the collateral and the type of collateral that we can provide.

Our collateral requirements will be a moving target throughout the life of this contract. Similarly,

our TIER and DSC will dictate the requirements as well.

As I mentioned on the phone, we are considering establishing a master letter of credit as a way to be fluid with our required collateral requirements. As the amount of collateral can fluctuate, we would like to consider the possibility of a master letter of credit in the amount of \$100 million. From this master we would like to draw the letter of credit up to this amount to provide to Morgan Stanley upon request. We have a short turn around time to be able to provide them with a letter of credit one to five days depending on the circumstances.

We have some time to work this out, as the entire agreement must be approved by the Kentucky PSC as well as RUS.

I would definitely like your thoughts on the best way to ensure that we have the necessary collateral. If you have any different suggestions after you read the requirements, I would appreciate the opportunity to discuss them with you. Likewise, if you need more information, please let me know.

Thank you.

Michelle D. Herrman, CPA, PHR

Vice President of Finance

Office: 606-451-4337



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**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** RE: December Form 7 South Kentucky  
**Date:** Tuesday, February 6, 2018 5:27:00 PM  
**Attachments:** [image002.png](#)

---

I have a conference call scheduled in the morning. Hope to have better guidance as a result of the call.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337  
Cell: 606-875-8041



---

**From:** Gaines, Luke [mailto:[LGaines@cobank.com](mailto:LGaines@cobank.com)]  
**Sent:** Tuesday, February 6, 2018 4:34 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** RE: December Form 7 South Kentucky

Thanks Michelle, we will get this filed.

Any luck on gaining clarity on the size of the letter of credit you may need?

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Tuesday, February 06, 2018 4:31 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
**Subject:** December Form 7 South Kentucky

Luke,

Attached is our short form Form 7 for the year ending December 31, 2017. We will send the long version upon completion.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337  
Cell: 606-875-8041



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**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** RE: Letter of Credit  
**Date:** Thursday, December 21, 2017 11:19:00 AM  
**Attachments:** [image001.png](#)

---

Are the fees for the letters of credit, specifically the master less than the 22.5bps?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Gaines, Luke [mailto:LGaines@cobank.com]  
**Sent:** Thursday, December 21, 2017 11:02 AM  
**To:** Michelle Herrman <michelleh@skrecc.com>  
**Subject:** Letter of Credit

Michelle,

I wanted to follow up with you on our discussion about a letter of credit. I have discussed internally, and we have other customers with letter of credits with PJM. Some of the pricing I discussed with you was related to lines of credit and not Letters of Credit, so please disregard those comments. Once I receive the information from you, I will put together a proposal with pricing. If I don't hear from you soon, I hope you have a Merry Christmas.

Thanks,

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

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**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** Collateral for Purchase Power Agreement  
**Date:** Wednesday, January 3, 2018 5:12:00 PM  
**Attachments:** [SKRECC MSCG EEI Collateral Annex \(Executed\).pdf](#)  
[image001.png](#)

---

Luke,

I hope you has a good holiday!

I am following up on our discussion regarding collateral for our 20 year Purchase Power Agreement with Morgan Stanley.

I am forwarding to you the Collateral Annex of that contract. If you focus on the collateral requirements beginning on Page 17 of this pdf, it will outline the thresholds for the collateral and the type of collateral that we can provide.

Our collateral requirements will be a moving target throughout the life of this contract. Similarly, our TIER and DSC will dictate the requirements as well.

As I mentioned on the phone, we are considering establishing a master letter of credit as a way to be fluid with our required collateral requirements. As the amount of collateral can fluctuate, we would like to consider the possibility of a master letter of credit in the amount of \$100 million. From this master we would like to draw the letter of credit up to this amount to provide to Morgan Stanley upon request. We have a short turn around time to be able to provide them with a letter of credit one to five days depending on the circumstances.

We have some time to work this out, as the entire agreement must be approved by the Kentucky PSC as well as RUS.

I would definitely like your thoughts on the best way to ensure that we have the necessary collateral. If you have any different suggestions after you read the requirements, I would appreciate the opportunity to discuss them with you. Likewise, if you need more information, please let me know.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



**From:** Gaines, Luke  
**To:** [Michelle Herrman](#)  
**Subject:** FW: Collateral for Purchase Power Agreement  
**Date:** Thursday, March 1, 2018 4:26:34 PM  
**Attachments:** [image001.png](#)

---

Michelle,

Items 1, 2 (we do have), and 5, would be sufficient for our purposes, so when you get the chance please send 1 and 5.

Thanks,

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Thursday, March 01, 2018 4:21 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
**Subject:** RE: Collateral for Purchase Power Agreement

Luke,

Would you need each piece of the contract? There are several components, some of which I believe are standard documents. Our contract components include,

1. Master Power Purchase and Sale Agreement
2. Collateral Annex (Which you have)
3. IECA August 2012 Dodd-Frank Agreement
4. IECA March 2013 Dodd-Frank Agreement
5. Financial Capacity Confirmation
6. Firm Physical Energy Confirmation
7. Morgan Stanley Parent Guaranty
8. Morgan Stanley Secretary's Certificate

Please let me know which you feel would need to be provided and I can send them to you quickly.

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337  
Cell: 606-875-8041



---

**From:** Gaines, Luke [<mailto:LGaines@cobank.com>]  
**Sent:** Thursday, March 1, 2018 3:36 PM  
**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** FW: Collateral for Purchase Power Agreement

Michelle,

I confirmed with our legal team, that you do not need our formal approval, but we would need a copy of the PPA to review for any material issues.

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Wednesday, January 03, 2018 5:12 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
**Subject:** Collateral for Purchase Power Agreement

Luke,

I hope you has a good holiday!

I am following up on our discussion regarding collateral for our 20 year Purchase Power Agreement with Morgan Stanley.

I am forwarding to you the Collateral Annex of that contract. If you focus on the collateral requirements beginning on Page 17 of this pdf, it will outline the thresholds for the collateral and the type of collateral that we can provide.

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We have some time to work this out, as the entire agreement must be approved by the Kentucky PSC as well as RUS.

I would definitely like your thoughts on the best way to ensure that we have the necessary collateral. If you have any different suggestions after you read the requirements, I would appreciate the opportunity to discuss them with you. Likewise, if you need more information, please let me know.

Thank you.

Michelle D. Herrman, CPA, PHR

Vice President of Finance

Office: 606-451-4337



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**From:** Gaines, Luke  
**To:** [Michelle Herrman](#)  
**Subject:** RE: CoBank Letter of Credit - South Kentucky  
**Date:** Friday, January 26, 2018 2:19:30 PM  
**Attachments:** [image001.png](#)

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In these situations, usually the letter of credit is reviewed weekly and only adjusted weekly. On the day of review if a size change is needed you simply email me and/or our Trade Services group (they actually handle the letter of credit) and request the change and provide your letter of credit number. We send an amended document to you for verification and execution. Once executed we send the amended document to the beneficiary. We can usually take care of this on the same day, assuming the request comes in by mid-day or so. In instances of reducing the size of the letter of credit, we have to get validation from the beneficiary first, so we are at their mercy timing wise. Usually they turn them around same day or within a day or two.

As for the letter of credit fee. In this case we would do the fee in arrears each quarter rather than an upfront annual fee. This simplifies transactions as the size could change several times during the quarter creating several debits and credits.

Would you like me to set up a call with John? Or do you prefer to reach out to him?

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [mailto:[michelleh@skrecc.com](mailto:michelleh@skrecc.com)]  
**Sent:** Friday, January 26, 2018 1:58 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
**Subject:** RE: CoBank Letter of Credit - South Kentucky

Luke,

Yes, this does sound very similar to our collateral situation. How did CoBank handle the Margin call on the LC and what was the turn-around time?

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337  
Cell: 606-875-8041



---

**From:** Gaines, Luke [mailto:[LGaines@cobank.com](mailto:LGaines@cobank.com)]  
**Sent:** Friday, January 26, 2018 10:15 AM

**To:** Michelle Herrman <[michelleh@skrecc.com](mailto:michelleh@skrecc.com)>  
**Subject:** CoBank Letter of Credit - South Kentucky

Michelle,

John Porter would be happy to discuss how their letter of credit was used in their power supply agreement. He briefly describes their situation in the email below, and I believe it is similar to your arrangement. I should mention that he recently retired, but still sounds very interested in helping out a fellow coop. His email is [chaser@bentonrea.com](mailto:chaser@bentonrea.com) if you would like to reach out to him directly. If you would prefer I try to set up a conference call, just let me know a couple of times that work for you and I will work on putting together a conference call.

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

-----Original Message-----

From: John Porter [<mailto:chaser@bentonrea.com>]  
Sent: Thursday, January 25, 2018 3:10 PM  
To: Donner, John  
Cc: [speedracer@bentonrea.com](mailto:speedracer@bentonrea.com)  
Subject: Re: CoBank

Hi John! - Good to hear from you!!

Steve mentioned that you are working with one of your customers that may have a power supply deal similar to what we have with Powerex. I have attempted to explain just a bit about how our LC works with Powerex. If I have missed the mark - please let me know.

Typically Powerex (Seller) agrees to an amount based upon the good faith and credit of the cooperative (Buyer). In our case the cooperative and Powerex agreed to \$5M based upon the good faith and credit of Benton REA and Benton REA agreed to \$50M based upon the good faith and credit of Powerex. So when the market price exceeds or is less than either of these threshold amounts in total - the other party relies on the LC for the difference. So in our case when the market price was LESS than the contract price by a total greater than \$5M (Price differential per MWH X total MWH of the contract) Benton REA relied on the LC arrangement that Benton REA with CoBank for the difference. Powerex checks this differential no less than once per week (sometimes more if they think it is necessary) and if the market is going down the (BUYER) would receive a margin call to increase the LC amount. In our agreement with Powerex the rounding amount for purposes of the LC was \$250,000.

If the Market price is GREATER than the contract price then the Buyer would be the one who would require the SELLER to post an LC for the amount that the total value (Price differential per MWH X Total MWH of the contract) of the differential exceeds the agreed upon good faith and credit of the

SELLER (in our case \$50M). Given what market prices are today - an agreed upon contract price will be much closer to zero than what the prices were in 2008 - when we did our deal with Powerex and CoBank so the exposure to the BUYER (and CoBank) will be quite a bit less than our deal and numbers should be smaller.

It used to be that a Buyer and Seller just shook hands and the deal was done. But ever since the California debacle in 2001 Letters of Credit are quite popular in an effort to keep the parties honest.

Steve - Please look at this and see where I may be incorrect.

Take John!

jp

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**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** RE: Collateral for Purchase Power Agreement  
**Date:** Thursday, January 4, 2018 9:23:00 AM  
**Attachments:** [image001.png](#)

---

Thank you.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Gaines, Luke [mailto:LGaines@cobank.com]  
**Sent:** Thursday, January 04, 2018 9:01 AM  
**To:** Michelle Herrman <michelleh@skrecc.com>  
**Subject:** RE: Collateral for Purchase Power Agreement

Michelle,

We enjoyed the holidays, I hope your family did as well. Thank you for the information. I will talk this through with some of my team members and get back to you with our thoughts.

**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

---

**From:** Michelle Herrman [<mailto:michelleh@skrecc.com>]  
**Sent:** Wednesday, January 03, 2018 5:12 PM  
**To:** Gaines, Luke  
**Subject:** Collateral for Purchase Power Agreement

Luke,

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**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** RE: December Form 7 South Kentucky  
**Date:** Tuesday, February 6, 2018 5:27:00 PM  
**Attachments:** [image002.png](#)

---

I have a conference call scheduled in the morning. Hope to have better guidance as a result of the call.

Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337  
Cell: 606-875-8041



---

**From:** Gaines, Luke [mailto:[LGaines@cobank.com](mailto:LGaines@cobank.com)]  
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**Luke Gaines**

Office: 770-618-3220  
Mobile: 404-805-0007

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**Sent:** Tuesday, February 06, 2018 4:31 PM  
**To:** Gaines, Luke <[LGaines@cobank.com](mailto:LGaines@cobank.com)>  
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**From:** [Michelle Herrman](#)  
**To:** [Gaines, Luke](#)  
**Subject:** RE: Letter of Credit  
**Date:** Thursday, December 21, 2017 11:19:00 AM  
**Attachments:** [image001.png](#)

---

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Michelle D. Herrman, CPA, PHR  
Vice President of Finance  
Office: 606-451-4337



---

**From:** Gaines, Luke [mailto:LGaines@cobank.com]  
**Sent:** Thursday, December 21, 2017 11:02 AM  
**To:** Michelle Herrman <michelleh@skrecc.com>  
**Subject:** Letter of Credit

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Thanks,

**Luke Gaines**

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Mobile: 404-805-0007

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