



United States Department of Agriculture  
Rural Development

MAY 24 2012

Mrs. Carol Hall Fraley  
President & CEO  
Grayson Rural Electric Cooperative  
Corporation  
109 Bagby Park  
Grayson, Kentucky 41143-1203

Dear Mrs. Hall Fraley:

Thank you for your letter dated April 12, 2012, providing us the 2012 budget assumptions and ratio projections for Grayson Rural Electric Cooperative Corporation (Grayson). **However, you did not include any explanation of why Grayson failed to meet the minimum Operating Times Interest Earned Ratio (OTIER) ratio of 1.10, outlined in Article V, Section 5.4 of the RUS Loan Contract, during 2011. Please provide this information within 30 days from the date of this letter.**

Based on the information provided, it appears that Grayson will not meet the minimum requirements for Average OTIER in 2012. We must remind you that, should this prove to be correct, an Event of Default, as described in Article VII, Section 7.1 (d) of the Loan Contract, will exist.

It is our understanding that Grayson will be filing an application for a rate increase with the Kentucky Public Service Commission (KPSC) before the end of 2012 in order to remedy this situation. The decision to request a rate increase is never an easy one and we commend the board of directors and management of Grayson for recognizing the need, planning for, and taking this necessary action. We strongly encourage you to take appropriate action so that the rate application can be filed and new rates implemented as soon as possible. Please keep us advised as to the anticipated filing date, an estimate of the implementation date, and an approximation of additional revenues for 2013. In addition, please let us know of any additional actions that Grayson plans to take in order to improve its financial condition.

In order for us to more closely follow Grayson's financial condition as it progresses through the rate filing process, please forward copies of your March, June, and September 2012 Form 7, Parts A - C, to this office and to our General Field Representative, Mr. Mike Norman, whom we understand is assisting you in your financial review.

Sincerely,

A handwritten signature in black ink that reads "Brian D. Jenkins". The signature is written in a cursive style.

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

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

Committed to the future of rural communities



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Mrs. Carol Hall Fraley  
President & CEO  
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109 Bagby Park  
Grayson, Kentucky 41143-1203

MAR 26 2013

Dear Mrs. Hall Fraley:

We have completed our review of Grayson Rural Electric Cooperative Corporation's (Grayson) December 31, 2012, Rural Utilities Service (RUS) Form 7, Financial and Statistical Report, and note that Grayson did not meet the minimum Operating Times Interest Earned Ratio (OTIER) of 1.10 or the Average OTIER of 1.10. We understand that the cause of these adverse ratios is a continued decrease in KWh sales. In addition, we are aware that Grayson filed an application for a rate increase with the Kentucky Public Service Commission in November of 2012 to remedy this situation. The decision to implement a rate increase is never an easy one, and we commend the Board of Directors and management of Grayson for recognizing the need and taking this difficult action.

Please keep us advised as to the progress of the rate application as well as the estimated effective date for the revised rates and an approximation of additional revenues anticipated in 2013. In addition, please let us know of any additional actions that Grayson plans to take in order to improve its financial condition. Include the projected OTIER and Average OTIER for the year ending December 31, 2013.

In order for us to more closely follow Grayson's financial condition as it progresses through the rate filing process, please forward copies of your March, June, and September 2013 Form 7, Parts A - C, to this office and to our General Field Representative, Mr. Mike Norman.

We are sending a copy of this letter to your Chairman, Mr. Roger L. Trent, and to our General Field Representative, Mr. Mike Norman. We would appreciate receiving your response within 30 days from the date of this letter.

Sincerely,

JOSEPH S. BADIN  
Director  
Northern Regional Division  
Electric Programs

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