

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	DOCKET NO.
Garkane Energy Cooperative, Inc.)	
for Authority to Issue Securities)	VERIFIED
)	APPLICATION FOR APPROVAL
)	OF ISSUANCE OF SECURITIES
)	

Applicant Garkane Energy Cooperative Inc., (“Garkane”) hereby submits this application for authority to issue securities in the form of a Substituted Secured Promissory Note and Amended and Restated Loan Agreement, together with related financing statement, and hereby requests an Order authorizing Garkane to issue securities in conjunction with a long-term loan facility and associated Secured Promissory Note in the amount of approximately \$4,500,000.00 (the “Substitute Loan Facility”). Garkane hereby requests Informal Adjudication of the Application under R746-110, Rules of the Public Service Commission, and hereby represents that the Application is anticipated to be unopposed and uncontested.

Garkane hereby further requests a waiver by the Commission of the 20-day tentative period under R746-110-2 for good cause shown on the basis that Garkane’s principal secured creditor requires that the Substitute Loan Facility be final and fully enforceable without being subject to any appeal or protests in order to allow Garkane to negotiate additional long-term or other financing arrangements with the creditor, which Garkane is in the process of pursuing. Garkane wishes to finalize the anticipated additional financing in a timely manner and to thereby

avoid any potential loss(es) or hardship(s) that would otherwise be occasioned should additional financing arrangements be delayed and/or unavailable.

Background.

1. In approximately November, 1999, Garkane entered into a long term loan agreement (the "1999 Loan") with its creditor, the National Rural Utilities Cooperative Finance Cooperative ("CFC") to financing up to \$4,546,000 in necessary improvements to the electric distribution system owned and operated by Garkane. The 1999 Loan contemplated, among other things, a guarantee of payment on behalf of Garkane which guarantee was provided in April 2000 by the Rural Utilities Service ("RUS") of the U.S. Department of Agriculture (the "RUS Guaranty").

2. A copy of the Commission's Order dated January 27, 2000 approving the 1999 Loan is attached hereto. In order to streamline the terms and conditions related to the 1999 Loan, and to procure other potential benefits derived by releasing the RUS Guaranty, Garkane has requested CFC to release the obligation to maintain the RUS Guaranty, and CFC agreed.

3. As part of the documentation to formally release Garkane from the requirement to maintain the RUS Guaranty, Garkane and CFC negotiated the terms and conditions of an Amended and Restated Loan Agreement, dated as of April 22, 2009 (the "2009 Amended Loan"), and Garkane proceeded to provide a Substitute Secured Promissory Note dated as of that same day (the "Substitute Note"). Copies of the 2009 Amended and Restated Loan Agreement as well as the Substitute Secured Promissory Note are attached hereto.

4. Garkane delivered the Substitute Note to CFC in April 2009. Due to uncertainty

surrounding the requirement to obtain additional authorization from the Commission for the Substitute Note (which did not materially alter the terms and conditions of the previous Advances under the long term financing in place at the time of the 2009 Amended Loan), the Substitute Note was issued without first obtaining authorization from the Commission. Garkane now seeks to rectify this oversight by application for authorization to issue the Substitute Note.

5. The relevant terms of the 2009 Amended Loan are as set forth therein, and primarily include the following:

- (a) The maximum amount of borrowing authorized under the terms of the 2009 Amended Loan will be approximately \$4,500,000.00;
- (b) The Maturity Date of the 2009 Amended Loan will be no later than November 1, 2034 (the "Maturity Date");
- (c) The amortization period of each Advance under the 2009 Amended Loan will be such period specified in writing by Garkane at the time of each such Advance, *provided* that in no event may the Amortization period for any Advance extend beyond the Maturity Date;
- (d) All Advances under the 2009 Amended Loan were made prior to the Effective Date of the 2009 Amended Loan Agreement, and no further Advances thereunder may be made thereafter;
- (e) For each Advance under the 2009 Amended Loan, Garkane has previously designated either a Fixed or a Variable interest rate. Interest rates for any such

Advance may be converted, at Garkane's option, pursuant to the terms of the 2009 Amended Loan Agreement. Conversion of a variable interest rate to fixed rates for any Advance(s) shall generally occur at the rate of interest offered by CFC in effect on the date of the Conversion Request; conversions from a fixed interest rate to a variable rate require a payment to CFC any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans.

- (f) The 2009 Amended Loan will continue to be secured by a first-lien mortgage on Garkane's electric system and assets.
- (g) Payments under the 2009 Amended Loan will be due quarterly in February, May, August, and November, unless agreed otherwise between the parties. All amounts outstanding and unpaid as of the Maturity Date will be due and payable on the Maturity Date.

Public Interest.

6. The approval of the 2009 Amended Loan is necessary in order to prevent uncertainty and give legally binding effect to the modification of the 1999 Loan to remove the RUS Guaranty. Removing the RUS Guaranty is anticipated to vastly streamline future financing, including long-term financing to fund anticipated future improvements to the Garkane system. The Governing Board of Garkane considered other reasonable alternatives to the 2009 Amended Loan, including leaving in place the RUS Guaranty. The terms, options, and available rates that will be made available to Garkane under future financing arrangements from CFC and

others are anticipated to be materially better, and more advantageous to Garkane, once the RUS Guaranty has been removed. Garkane does not anticipate any difficulty in obtaining such future financing without the existing RUS Guaranty in place. Accordingly, the Garkane Board of Directors approved and authorized the 2009 Amended Loan at the regularly scheduled board meeting held April 22, 2009. Portions of the Minutes of the regularly scheduled Garkane Board meeting approving the 2009 Amended Loan are submitted herewith.

7. The proposed 2009 Amended Loan is for lawful objects within Garkane's proper corporate purposes, are compatible with the public interest, are necessary or appropriate for or consistent with the proper performance by Garkane of its services as a public utility, will not impair Garkane's ability to perform those services, and are reasonably necessary or appropriate for those purposes.

Requested Time of Approval.

8. Garkane respectfully requests an Order from this Commission approving the issuance of the Garkane Guarantee and related transactions on or before December 1, 2010, several weeks in advance of Garkane's anticipated execution of an unrelated long-term financing arrangement with CFC.

DATED this 7th day of October, 2010.

David F. Crabtree



Attorney for Applicant
Garkane Energy Cooperative, Inc.
10714 South Jordan Gateway, Suite 300
South Jordan, Utah 84095

VERIFICATION

STATE OF UTAH)
COUNTY OF Wayne) :ss

The undersigned, being first duly sworn upon oath, deposes and states that he is the Chief Executive Officer of Garkane Energy Cooperative, Inc., the Applicant in this proceeding, that he has read the foregoing Application and is familiar with the transactions referred to therein, and that, to the best of his knowledge, information and belief, the statements therein are true and accurate.

Carl R. Albrecht
Carl R. Albrecht
CEO

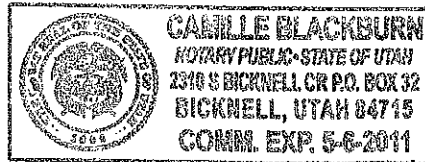
Subscribed and sworn to before me the 1st day of October, 2010.

Camille Blackburn
Notary Public

My Commission Expires:

5-6-11

Residing in: Wayne Co



BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
Garkane Energy Cooperative, Inc.)
for Authority to Issue Securities)
)
)
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DOCKET NO.

PROPOSED REPORT AND
ORDER APPROVING
ISSUANCE OF SECURITIES

By the Commission:

On October ____, 2010, applicant Garkane Energy Cooperative, Inc. filed an application seeking authority pursuant to Utah Code Ann. § 54-4-31 to issue certain securities in the form of a long-term Amended and Restated Loan Agreement and a related Substitute Secured Promissory Note in the amount of up to approximately \$4,500,000.00 (the "Substitute Long-Term Loan Facility"). Applicant requested Informal Adjudication of the Application under R746-110, Rules of the Public Service Commission, and represented that the matter was anticipated to be unopposed and uncontested. Applicant further requested a waiver by the Commission of the 20-day tentative period under R746-110-2 for good cause shown on the basis that Applicant is in the process of procuring additional long-term financing from the lender under the Substitute Long-Term Loan Facility, and the lender requires, as a condition to providing such additional long term financing, that the Substitute Long-Term Loan Facility must be final and fully enforceable in full force and effect without being subject to any appeal or protests in order

to proceed on any additional future financing.

Applicant has submitted copies of the relevant documents, certified and verified pursuant to the Verified Application, and other information to establish the facts pertinent to the Application.

FINDINGS OF FACT

1. In November, 1999, Garkane entered into a long term loan agreement (the "1999 Loan") with its creditor, the National Rural Utilities Cooperative Finance Cooperative ("CFC") to financing up to \$4,546,000 in necessary improvements to the electric distribution system owned and operated by Garkane. By order dated January 27, 2000, the Commission approved the 1999 Loan. The 1999 Loan contemplated, among other things, a guarantee of payment on behalf of Garkane which guarantee was provided in April 2000 by the Rural Utilities Service ("RUS") of the U.S. Department of Agriculture (the "RUS Guaranty"). In order to streamline the terms and conditions related to the 1999 Loan, and to procure other potential benefits derived by releasing the RUS Guaranty, Garkane has requested CFC to release the obligation to maintain the RUS Guaranty, and CFC has agreed.

2. As part of the documentation to formally release Garkane from the requirement to maintain the RUS Guaranty, Garkane and CFC negotiated the terms and conditions of an Amended and Restated Loan Agreement, dated as of April 22, 2009 (the "2009 Amended Loan"), and Garkane proceeded to provide a Substitute Secured Promissory Note dated as of that same day (the "Substitute Note").

3. The relevant terms of the 2009 Amended Loan are as set forth therein, and primarily include the following:

- (a) The maximum amount of borrowing authorized under the terms of the 2009 Amended Loan will be approximately \$4,500,000.00;
- (b) The Maturity Date of the 2009 Amended Loan will be no later than November 1, 2034 (the "Maturity Date");
- (c) The amortization period of each Advance under the 2009 Amended Loan will be such period specified in writing by Garkane at the time of each such Advance, *provided* that in no event may the Amortization period for any Advance extend beyond the Maturity Date;
- (d) All Advances under the 2009 Amended Loan were made prior to the Effective Date of the 2009 Amended Loan Agreement, and no further Advances thereunder may be made thereafter;
- (e) For each Advance under the 2009 Amended Loan, Garkane has previously designated either a Fixed or a Variable interest rate. Interest rates for any such Advance may be converted, at Garkane's option, pursuant to the terms of the 2009 Amended Loan Agreement. Conversion of a variable interest rate to fixed rates for any Advance(s) shall generally occur at the rate of interest offered by CFC in effect on the date of the Conversion Request; conversions from a fixed interest rate to a variable rate require a payment to CFC any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time

to time for similarly classified long-term loans.

- (f) The 2009 Amended Loan will continue to be secured by a first-lien mortgage on Garkane's electric system and assets.
- (g) Payments under the 2009 Amended Loan will be due quarterly in February, May, August, and November, unless agreed otherwise between the parties. All amounts outstanding and unpaid as of the Maturity Date will be due and payable on the Maturity Date.

4. Applicant analyzed and considered various alternatives to the Substitute Long-Term Loan Facility, including leaving the RUS Guaranty in place. Applicant has represented that the Substitute Long-Term Loan Facility represents the best available means available to Applicant to streamline future anticipated financing from its primary lending source for ongoing and future anticipated capital projects and other corporate purposes. The Substitute Long-Term Loan Facility was approved by Applicant's Board of Trustees at a regularly scheduled meeting of the board during April, 2010.

CONCLUSIONS OF LAW

- 1. The Applicant is a public utility subject to the jurisdiction of this Commission.
- 2. All legal and factual prerequisites and requirements for the issuance of this Order have been satisfied.
- 3. Execution and delivery of the Substitute Long-Term Loan Facility as described herein is in the public interest.

4. The issuance and/or renewal of securities and security interest in connection with the Substitute Long-Term Loan Facility is (i) for lawful and proper purposes; (ii) within Applicant's corporate powers; (iii) consistent with the public interest, sound financial practices and the proper performance of Applicant's public service; and (iv) designed to enhance and not impair Applicant's ability to perform its public service.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED AS FOLLOWS:

1. Garkane is hereby authorized to execute and to secure the Substitute Long-Term Loan Facility in the amount of \$4,500,000.00, on the terms and conditions set forth in this Report and Order.

2. Applicant is hereby authorized to execute and deliver such documents and take such actions as may be reasonably necessary or convenient to the completion of the Proposed Long-Term Loan Facility.

3. Nothing in this Order shall be construed to obligate the State of Utah to pay or guarantee in any manner whatsoever any securities authorized, issued, assumed, or guaranteed hereunder.

4. For good cause shown, the 20-day tentative period under R746-110-2 is hereby waived.

DATED at Salt Lake City, Utah, this _____ day of _____, 2010.

Ted Boyer, Chairman

Richard M. Campbell, Commissioner

Ron Allen, Commissioner

Attest:

Julie Orchard
Commission Administrator

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Verified Application for Approval of Issuance of Securities was served by U.S. mail this 7th day of October, 2010, upon the following:

Artie Powell
Utah Division of Public Utilities
Box 146751
Salt Lake City, Utah 84114-6751

Committee of Consumer Services
160 East 300 South, 4th Floor
Salt Lake City, Utah 84114

Mr. Dan Lyzinski
CFC
2201 Cooperative Way
Herndon, VA 20171-3025

Camie Keedee

ATTACHMENT NO. 1

TO THE

**VERIFIED APPLICATION FOR APPROVAL
OF ISSUANCE OF SECURITIES**

“AMENDED AND RESTATED LOAN AGREEMENT”

AMENDED AND RESTATED LOAN AGREEMENT

AMENDED AND RESTATED LOAN AGREEMENT (this "Agreement") dated as of April 22, 2009, between GARKANE ENERGY COOPERATIVE, INC. ("Borrower"), a corporation organized and existing under the laws of the State of Utah and NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION ("CFC"), a cooperative association organized and existing under the laws of the District of Columbia.

RECITALS

WHEREAS, the Borrower under its former name, Garkane Power Association, Inc. and CFC are parties to that certain Loan Agreement, dated as of November 1, 1999 (the "Original Agreement");

WHEREAS, pursuant to the Original Agreement, Borrower executed that certain Guaranteed Promissory Note (the "Original Note"), dated as of November 1, 1999, in original principal amount of Four Million, Five Hundred Thousand Dollars (\$4,500,000.00), made payable to the order of CFC, bearing CFC Loan No. UT 06-U-9015 and RUS Loan No. Utah 6-AM14 evidencing its repayment obligation thereof;

WHEREAS, payment of the Note has been guaranteed on behalf of the Borrower by the United States of America, acting through the Administrator of the Rural Utilities Service ("RUS"), pursuant to the Rural Electrification Act of 1936, as amended (7 U.S.C. § 901 *et seq.*) under the terms and conditions of that certain Master Loan Guarantee and Servicing Agreement dated as of February 16, 1999, by and between CFC and RUS and pursuant to the Guarantee dated April 1, 2000 (such guaranty of payment of the Original Note is hereinafter referred to as the "Guaranty");

WHEREAS, the Borrower has requested that CFC release RUS from its obligations under the Guaranty;

WHEREAS, CFC has agreed to provide such release subject to (i) modification of the terms of the Original Agreement to reflect the terms CFC is willing to lend under upon the release of the Guaranty and (ii) Borrower's execution of a substitute secured promissory note to replace the Original Note.

WHEREAS, Borrower and CFC desire to amend and restate the Original Loan Agreement to memorialize the agreement of the parties with respect to the modifications and to set forth the terms and conditions thereof going forward.

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

ARTICLE I

DEFINITIONS

Section 1.01 For purposes of this Agreement, the following capitalized terms shall have the following meanings (such definitions to be equally applicable to the singular and the plural form thereof). Capitalized terms that are not defined herein shall have the meanings as set forth in the Mortgage.

"Accounting Requirements" shall mean any system of accounts prescribed by a federal regulatory authority having jurisdiction over the Borrower or, in the absence thereof, the requirements of GAAP applicable to businesses similar to that of the Borrower.

"Adjustment Date" shall mean a date or dates, determined by CFC based on the CFC Fixed Rate Term of the applicable CFC Fixed Rate, occurring after the date of the initial Advance.

"Advance" shall mean each advance of funds by CFC to the Borrower pursuant to the terms and conditions of this Agreement or which was made pursuant to the Original Agreement.

"Average DSC Ratio" shall mean the average of the Borrower's two highest annual DSC Ratios during the most recent three calendar years.

"Business Day" shall mean any day that both CFC and the depository institution CFC utilizes for funds transfers hereunder are open for business.

"CFC Commitment" shall have the meaning as defined in Schedule 1.

"CFC Fixed Rate" shall mean (i) such fixed rate as is then available for loans similarly classified pursuant to CFC's policies and procedures then in effect, or (ii) such other fixed rate as may be agreed to by the parties and reflected on the written requisition for funds in the form attached as Exhibit A hereto.

"CFC Fixed Rate Term" shall mean the specific period of time that a CFC Fixed Rate is in effect for an Advance.

"CFC Variable Rate" shall mean (i) the rate established by CFC for variable interest rate long-term loans similarly classified pursuant to the long-term loan programs established by CFC from time to time, or (ii) such other variable rate as may be agreed to by the parties on the written requisition for funds in the form attached as Exhibit A hereto.

"Conversion Request" shall mean a written request from any duly authorized official of the Borrower, in form and substance satisfactory to CFC, that requests an interest rate conversion.

"Debt Service Coverage ("DSC") Ratio" shall mean the ratio determined as follows: for any calendar year add (i) Operating Margins, (ii) Non-Operating Margins--Interest, (iii) Interest Expense, (iv) Depreciation and Amortization Expense, and (v) cash received in respect of generation and transmission and other capital credits, and divide the sum so obtained by the sum of all payments of Principal and Interest Expense required to be made during such calendar year; provided, however, that in the event that any amount of Long-Term Debt has been refinanced during such year, the payments of Principal and Interest Expense required to be made during such year on account of such refinanced amount of Long-Term Debt shall be based (in lieu of actual payments required to be made on such refinanced amount of Long-Term Debt) upon the larger of (i) an annualization of the payments required to be made with respect to the refinancing debt during the portion of such year such refinancing debt is outstanding or (ii) the payment of Principal and Interest Expense required to be made during the following year on account of such refinancing debt.

"Default Rate" shall mean a rate per annum equal to the interest rate in effect for an Advance plus two hundred basis points.

"Depreciation and Amortization Expense" shall mean an amount constituting the depreciation and amortization of the Borrower computed pursuant to Accounting Requirements.

"Distributions" shall mean, with respect to the Borrower, any dividend, patronage refund, patronage capital retirement or cash distribution to its members, or consumers (including but not limited to any general cancellation or abatement of charges for electric energy or services furnished by the Borrower). The term "Distribution" shall *not* include (a) a distribution by the Borrower to the estate of a deceased patron, (b) repayment by the Borrower of a membership fee upon termination of a membership, or (c) any rebate to a patron resulting from a cost abatement received by the Borrower, such as a reduction of wholesale power cost previously incurred.

"Environmental Laws" shall mean all laws, rules and regulations promulgated by any Governmental Authority, with which Borrower is required to comply, regarding the use, treatment, discharge, storage, management, handling, manufacture, generation, processing, recycling, distribution, transport, release of or exposure to any Hazardous Material.

"Equity" shall mean the aggregate of the Borrower's equities and margins computed pursuant to Accounting Requirements.

"Event of Default" shall have the meaning as described in Article VI hereof.

"GAAP" shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board.

"Governmental Authority" shall mean the government of the United States of America, any other nation or government, any state or other political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Hazardous Material" shall mean any (a) petroleum or petroleum products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls, lead and radon gas, and (b) any other substance designated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"Interest Expense" shall mean an amount constituting the interest expense with respect to Long-Term Debt of the Borrower computed pursuant to Accounting Requirements. In computing Interest Expense, there shall be added, to the extent not otherwise included, an amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Borrower over 2% of the Borrower's Equity.

"Lien" shall mean any statutory or common law consensual or non-consensual mortgage, pledge, security interest, encumbrance, lien, right of set off, claim or charge of any kind, including, without limitation, any conditional sale or other title retention transaction, any lease transaction in the nature thereof and any secured transaction under the Uniform Commercial Code.

"Loan" shall mean the loan made by CFC to the Borrower, pursuant to this Agreement and the Note, in an aggregate principal amount not to exceed the CFC Commitment.

"Loan Documents" shall mean this Agreement, the Note, the Mortgage and all other documents or instruments executed, delivered or executed and delivered by the Borrower and evidencing, securing, governing or otherwise pertaining to, the Loan.

"Long-Term Debt" shall mean an amount constituting the long-term debt of the Borrower computed pursuant to Accounting Requirements.

"Make-Whole Premium" shall mean an amount equal to the present value, for each successive month in the remaining term of such prepaid Loan, of (1) the CFC Fixed Rate less (2) the yield as reported in the Federal Reserve statistical release H.15 (519) under the caption "U.S. Government Securities/Treasury Constant Maturities" (hereinafter "H.15 (519)") for a Treasury Note with a term equal to that remaining on such Loan (which will be obtained by interpolating between the yield reported on the H.15 (519) for specific whole years) on the date of such prepayment, multiplied by (a) the outstanding principal balance of such Loan at the time of prepayment for purposes of calculating such amount for the month during which such prepayment occurs and by (b) the principal balance that would have been outstanding at the beginning of each successive month on the remaining term of such Loan had the amortization schedule set forth for such Loan been adhered to; provided, that the rate determined in (2) above will be used as the discount rate in computing such present value. The Make-Whole Premium represents CFC's reinvestment loss resulting from making a fixed rate loan.

"Maturity Date" with respect to each Note shall have the meaning ascribed to it therein.

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

"Mortgaged Property" shall have the meaning ascribed to it in the Mortgage.

"Non-Operating Margins--Interest" shall mean the amount representing the interest component of non-operating margins of the Borrower computed pursuant to Accounting Requirements.

"Note" shall mean the Original Note as substituted by the Substitute Note, and shall include all subsequent substitute, amended or replacement promissory notes.

"Obligations" shall mean any and all liabilities, obligations or indebtedness owing by the Borrower to CFC, of any kind or description, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

"Operating Margins" shall mean the amount of patronage capital and operating margins of the Borrower computed pursuant to Accounting Requirements.

"Payment Date" shall mean the last day of each of the months referred to in Schedule 1.

"Payment Notice" shall mean a notice furnished by CFC to the Borrower that indicates the amount of each payment of interest or interest and principal and the total amount of each payment due.

"Permitted Encumbrances" shall have the meaning ascribed to it in the Mortgage.

"Person" shall mean natural persons, cooperatives, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, associations, companies, trusts or other organizations, irrespective of whether they are legal entities, and Governmental Authorities.

"Principal" shall mean the amount of principal billed on account of Long-Term Debt of the Borrower computed pursuant to Accounting Requirements.

"Prior Loan Documents" shall mean, collectively, all long term loan agreements entered into prior to the date hereof by and between CFC and the Borrower, and all promissory notes delivered pursuant thereto secured under the Mortgage.

"Restricted Rentals" shall mean all rentals required to be paid under finance leases and charged to income, exclusive of any amounts paid under any such lease (whether or not designated therein as rental or additional rental) for maintenance or repairs, insurance, taxes, assessments, water rates or similar charges. For the purpose of this definition the term "finance lease" shall mean any lease having a rental term (including the term for which such lease may be renewed or extended at the option of the lessee) in excess of three (3) years and covering property having an initial cost in excess of \$250,000 other than automobiles, trucks, trailers, other vehicles (including without limitation aircraft and ships), office, garage and warehouse space and office equipment (including without limitation computers).

"Subsidiary" as to any Person, shall mean a corporation, partnership, limited partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Substitute Note" shall mean the substitute secured promissory note, payable to the order of CFC, executed by the Borrower, dated as of even date herewith, pursuant to this Agreement as more particularly described in Section 3.02.A hereof.

"Total Assets" shall mean an amount constituting the total assets of the Borrower computed pursuant to Accounting Requirements.

"Total Utility Plant" shall mean the amount constituting the total utility plant of the Borrower computed pursuant to Accounting Requirements.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.01 The Borrower represents and warrants to CFC that as of the date of this Agreement:

A. Good Standing. The Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, is duly qualified to do business and is in good standing in those states in which it is required to be qualified to conduct its business. The Borrower is a member in good standing of CFC.

B. Subsidiaries and Ownership. Schedule 1 hereto sets forth a complete and accurate list of the Subsidiaries of the Borrower showing the percentage of the Borrower's ownership of the outstanding stock, membership interests or partnership interests, as applicable, of each Subsidiary.

C. Authority; Validity. The Borrower has the power and authority to enter into this Agreement, the Note and the Mortgage; to make the borrowing hereunder; to execute and deliver all documents and instruments required hereunder and to incur and perform the obligations provided for herein, in the Note and in the Mortgage, all of which have been duly authorized by all necessary and proper action; and no consent or approval of any Person, including, as applicable and without limitation, members of the Borrower, which has not been obtained is required as a condition to the validity or enforceability hereof or thereof.

Each of this Agreement, the Note and the Mortgage is, and when fully executed and delivered will be, legal, valid and binding upon the Borrower and enforceable against the Borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity.

D. No Conflicting Agreements. The execution and delivery of the Loan Documents and performance by the Borrower of the obligations thereunder, and the transactions contemplated hereby or thereby, will not: (i) violate any provision of law, any order, rule or regulation of any court or other agency of government, any award of any arbitrator, the articles of incorporation or by-laws of the Borrower, or any indenture, contract, agreement, mortgage, deed of trust or other instrument to which the Borrower is a party or by which it or any of its property is bound; or (ii) be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a default under, any such award, indenture, contract, agreement, mortgage, deed of trust or other instrument, or result in the creation or imposition of any Lien (other than contemplated hereby) upon any of the property or assets of the Borrower.

The Borrower is not in default in any material respect under any agreement or instrument to which it is a party or by which it is bound and no event or condition exists which constitutes a default, or with the giving of notice or lapse of time, or both, would constitute a default under any such agreement or instrument.

E. Taxes. The Borrower, and each of its Subsidiaries, has filed or caused to be filed all federal, state and local tax returns which are required to be filed and has paid or caused to be paid all federal, state and local taxes, assessments, and governmental charges and levies thereon, including interest and penalties to the extent that such taxes, assessments, and

governmental charges and levies have become due, except for such taxes, assessments, and governmental charges and levies which the Borrower or any Subsidiary is contesting in good faith by appropriate proceedings for which adequate reserves have been set aside.

F. Licenses and Permits. The Borrower has duly obtained and now holds all licenses, permits, certifications, approvals and the like necessary to own and operate its property and business that are required by Governmental Authorities and each remains valid and in full force and effect.

G. Litigation. There are no outstanding judgments, suits, claims, actions or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower, its Subsidiaries or any of their respective properties which, if adversely determined, either individually or collectively, would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries. The Borrower and its Subsidiaries are not, to the Borrower's knowledge, in default or violation with respect to any judgment, order, writ, injunction, decree, rule or regulation of any Governmental Authority which would have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower or its Subsidiaries.

H. Financial Statements. The balance sheet of the Borrower as at the date identified in Schedule 1 hereto, the statement of operations of the Borrower for the period ending on said date, and the interim financial statements of the Borrower, all heretofore furnished to CFC, are complete and correct. Said balance sheet fairly presents the financial condition of the Borrower as at said date and said statement of operations fairly reflects its operations for the period ending on said date. The Borrower has no contingent obligations or extraordinary forward or long-term commitments except as specifically stated in said balance sheet or herein. There has been no material adverse change in the financial condition or operations of the Borrower from that set forth in said financial statements except changes disclosed in writing to CFC prior to the date hereof.

I. Borrower's Legal Status. Schedule 1 hereto accurately sets forth: (i) the Borrower's exact legal name, (ii) the Borrower's organizational type and jurisdiction of organization, (iii) the Borrower's organizational identification number or accurate statement that the Borrower has none, and (iv) the Borrower's place of business or, if more than one, its chief executive office as well as the Borrower's mailing address if different.

J. Required Approvals. No license, consent or approval of any Governmental Authority is required to enable the Borrower to enter into this Agreement, the Note and the Mortgage, or to perform any of its Obligations provided for in such documents, including without limitation (and if applicable), that of any state public utilities commission, any state public service commission, and the Federal Energy Regulatory Commission, except as disclosed in Schedule 1 hereto, all of which the Borrower has obtained prior to the date hereof.

K. Compliance With Laws. The Borrower and each Subsidiary is in compliance, in all material respects, with all applicable requirements of law and all applicable rules and regulations of each Governmental Authority.

L. Disclosure. To the Borrower's knowledge, information and belief, neither this Agreement nor any document, certificate or financial statement furnished to CFC by or on behalf of the Borrower in connection herewith (all such documents, certificates and financial statements, taken as a whole) contains any untrue statement of a material fact or omits to state

any material fact necessary in order to make the statements contained herein and therein not misleading.

M. No Other Liens. As to property which is presently included in the description of Mortgaged Property, the Borrower has not, without the prior written approval of CFC, executed or authenticated any security agreement or mortgage, or filed or authorized any financing statement to be filed with respect to assets owned by it, other than security agreements, mortgages and financing statements in favor of CFC, except as disclosed in writing to CFC prior to the date hereof or relating to Permitted Encumbrances.

N. Environmental Matters. Except as to matters which individually or in the aggregate would not have a material adverse effect upon the business or financial condition of the Borrower or its Subsidiaries, (i) Borrower is in compliance with all Environmental Laws (including, but not limited to, having any required permits and licenses), (ii) there have been no releases (other than releases remediated in compliance with Environmental Laws) from any underground or aboveground storage tanks (or piping associated therewith) that are or were present at the Mortgaged Property, (iii) Borrower has not received written notice or claim of any violation of any Environmental Law, (iv) there is no pending investigation of Borrower in regard to any Environmental Law, and (v) to the best of Borrower's knowledge, there has not been any release or contamination (other than releases or contamination remediated in compliance with Environmental Laws) resulting from the presence of Hazardous Materials on property owned, leased or operated by the Borrower.

O. Use of Proceeds. The Borrower has not, without the prior written consent of CFC, used the proceeds of any Advance for a purpose other than to finance additional distribution facilities.

ARTICLE III

LOAN

Section 3.01 Advances. All amounts under this Agreement and the Note have been advanced prior to the date hereof. No portion of the CFC Commitment is available for Advances after the date hereof

Section 3.02 Payment. Notes shall be payable and bear interest as follows:

A. Payments; Maturity; Amortization.

(i) The Substitute Note shall be in the amount set forth in Schedule 1 and shall have a Maturity Date of November 1, 2034, *provided, however,* that if such date is not a Payment Date, then the Maturity Date shall be the Payment Date immediately preceding such date.

(ii) Each Advance shall continue to amortize over the period and according to the method selected for such Advance, *provided, however,* that such period shall not extend beyond the Maturity Date. For each Advance, the Borrower shall promptly pay interest and principal in the amounts shown in the Payment Notice on each Payment Date. If not sooner paid, any amount due on account of the unpaid principal, interest accrued thereon and fees, if any, shall be due and payable on the Maturity Date.

(iii) CFC will furnish to the Borrower a Payment Notice at least ten (10) days before each Payment Date, provided, however, that CFC's failure to send a Payment Notice shall not constitute a waiver by CFC or be deemed to relieve the Borrower of its obligation to make payments as and when due as provided for herein.

(iv) No provision of this Agreement or of any Note shall require the payment, or permit the collection, of interest in excess of the highest rate permitted by applicable law.

B. Application of Payments. Each payment shall be applied to the Obligations, first to any fees, costs, expenses or charges other than interest or principal, second to interest accrued, and the balance to principal.

Section 3.03 Selection of Interest Rate and Interest Rate Computation. Each Advance shall continue to bear the interest rate for such Advance as in effect prior to the date hereof until such time as Borrower elects to convert the interest rate on such Advance pursuant to the terms hereof.

(i) CFC Fixed Rate. If the Borrower selects a CFC Fixed Rate for an Advance, then such rate shall be in effect for the CFC Fixed Rate Term selected by the Borrower. CFC shall provide the Borrower with at least sixty (60) days prior written or electronic notice of the date on which the CFC Fixed Rate is due to reprice. Pursuant to CFC's policies of general application for repricing, the Borrower may select any of the interest rate options then available for similarly classified borrowers repricing from a CFC Fixed Rate. If the Borrower does not select an interest rate in writing when a CFC Fixed Rate is subject to repricing, then the Advance subject to such CFC Fixed Rate shall reprice to, and shall bear interest at, the CFC Variable Rate. CFC agrees that its long-term loan policies will include a fixed interest rate option until the Maturity Date. For any Advance, the Borrower may not select a CFC Fixed Rate with a CFC Fixed Rate Term that extends beyond the Maturity Date. Interest on amortizing Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days, until the first day of the Billing Cycle in which the Amortization Basis Date occurs; interest shall then be computed on the basis of a 30-day month and 360-day year. Interest on non-amortizing Advances bearing interest at a CFC Fixed Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

(ii) CFC Variable Rate. If the Borrower selects the CFC Variable Rate for an Advance, then such CFC Variable Rate shall apply until the Maturity Date, unless the Borrower elects to convert to a CFC Fixed Rate pursuant to the terms hereof. Interest on Advances bearing interest at the CFC Variable Rate shall be computed for the actual number of days elapsed on the basis of a year of 365 days.

Section 3.04 Conversion of Interest Rates.

A. CFC Variable Rate to a CFC Fixed Rate. The Borrower may at any time convert from the CFC Variable Rate to a CFC Fixed Rate by submitting to CFC a Conversion Request requesting that a CFC Fixed Rate apply to any outstanding Advance. The rate shall be equal to the rate of interest offered by CFC in effect on the date of the Conversion Request. The effective date of the new interest rate shall be a date determined by CFC pursuant to its policies of general application following receipt of the Conversion Request.

B. CFC Fixed Rate to CFC Variable Rate. The Borrower may at any time convert a CFC Fixed Rate to the CFC Variable Rate by: (i) submitting a Conversion Request requesting that

the CFC Variable Rate apply to any outstanding Advance; and (ii) paying to CFC promptly upon receipt of an invoice any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. The effective date of the CFC Variable Rate shall be a date determined by CFC pursuant to its policies of general application following receipt of the Conversion Request.

C. A CFC Fixed Rate to Another CFC Fixed Rate. The Borrower may at any time convert from a CFC Fixed Rate to another CFC Fixed Rate if the Borrower: (i) submits a Conversion Request requesting that a CFC Fixed Rate apply to any Advance and (ii) pays to CFC promptly upon receipt of an invoice any applicable conversion fee calculated pursuant to CFC's long-term loan policies as established from time to time for similarly classified long-term loans. The effective date of the new interest rate shall be a date determined by CFC pursuant to its policies of general application following receipt of the Conversion Request.

Section 3.04 Optional Prepayment. The Borrower may at any time, on not less than thirty (30) days prior written notice to CFC, prepay any Advance, in whole or in part. In the event the Borrower prepays all or any part of the Loan (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), the Borrower shall pay any prepayment fee or Make-Whole Premium as CFC may prescribe pursuant to the terms of this Section 3.04. All prepayments shall be accompanied by payment of accrued and unpaid interest on the amount of and to the date of the repayment. All prepayments shall be applied first to fees, second to the payment of accrued and unpaid interest, and then to the unpaid balance of the principal amount of the applicable Loan. If the Loan bears interest at the CFC Variable Rate, the Borrower may prepay the Loan or any portion thereof, as the case may be, at any time subject to the terms hereof and said prepayment fee shall be in an amount equal to thirty three (33) basis points times the amount being prepaid. If the Loan bears interest at a CFC Fixed Rate, the Borrower may prepay the Loan only on an Adjustment Date or any such other date provided that the Borrower shall pay a prepayment fee in an amount equal to thirty three (33) basis points times the amount being prepaid plus any applicable Make-Whole Premium.

Section 3.05 Mandatory Prepayment. If there is a change in the Borrower's corporate structure (including without limitation by merger, consolidation, conversion or acquisition), then upon the effective date of such change, (a) the Borrower shall no longer have the ability to request, and CFC shall have no obligation to make, Advances hereunder and (b) the Borrower shall prepay the outstanding principal balance of all Obligations, together with any accrued but unpaid interest thereon, any unpaid costs or expenses provided for herein, and a prepayment premium prescribed by CFC pursuant to its policies of general application in effect from time to time.

Notwithstanding the foregoing, Borrower shall retain the ability to request, and CFC shall retain the obligation to make, Advances hereunder and no prepayment shall be required under this Section 3.05 if, after giving effect to such change, Borrower, or its successor in interest, is engaged in the furnishing of electric utility services to its members and patrons for their use as ultimate consumers and is organized as a cooperative, nonprofit corporation, public utility district, municipality, or other public governmental body.

Section 3.06 Default Rate. If Borrower defaults on its obligation to make a payment due hereunder by the applicable Payment Date, and such default continues for thirty days thereafter, then beginning on the thirty-first day after the Payment Date and for so long as such default continues, Advances shall bear interest at the Default Rate.

ARTICLE IV

CONDITIONS

Section 4.01. Conditions to Closing. This Agreement shall become effective only upon satisfaction of the following conditions (as evidenced by CFC's execution hereof):

A. Legal Matters. All legal matters incident to the consummation of the transactions hereby contemplated shall be satisfactory to counsel for CFC.

B. Documents. CFC shall have been furnished with (i) the executed Loan Agreement, (ii) certified copies of all such organizational documents and proceedings of the Borrower authorizing the transactions hereby contemplated as CFC shall require, (iii) an opinion of counsel for the Borrower addressing such legal matters as CFC shall reasonably require, and (iv) all other such documents as CFC may reasonably request.

C. Guaranty Release. RUS and CFC shall have agreed to a form of release in order for CFC to release the Guaranty and CFC shall have executed such release and provided it to RUS.

D. Government Approvals. The Borrower shall have furnished to CFC true and correct copies of all certificates, authorizations, consents, permits and licenses from Governmental Authorities necessary for the execution or delivery of the Loan Documents or performance by the Borrower of the obligations thereunder.

E. Mortgage Recordation. The Mortgage (and any amendments, supplements or restatements as CFC may require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a lien, subject to Permitted Encumbrances, on all of the Borrower's real property, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

F. UCC Filings. Uniform Commercial Code financing statements (and any continuation statements and other amendments thereto that CFC shall require from time to time) shall have been duly filed, recorded or indexed in all jurisdictions necessary (and in any other jurisdiction that CFC shall have reasonably requested) to provide CFC a perfected security interest, subject to Permitted Encumbrances, in the Mortgaged Property which may be perfected by the filing of a financing statement, all in accordance with applicable law, and the Borrower shall have paid all applicable taxes, recording and filing fees and caused satisfactory evidence thereof to be furnished to CFC.

ARTICLE V
COVENANTS

Section 5.01 Affirmative Covenants. The Borrower covenants and agrees with CFC that until payment in full of the Note and performance of all obligations of the Borrower hereunder:

A. Financial Ratios; Design of Rates. The Borrower shall achieve an Average DSC Ratio of not less than 1.35. The Borrower shall not decrease its rates for electric service if it has failed to achieve a DSC Ratio of 1.35 for the calendar year prior to such reduction subject only to an order from a Governmental Authority properly exercising jurisdiction over the Borrower.

B. RESERVED.

C. Notice. The Borrower shall promptly notify CFC in writing of:

(i) any material adverse change in the business, operations, prospects, assets, liabilities or financial condition of the Borrower;

(ii) the institution or threat of any litigation or administrative proceeding of any nature involving the Borrower which could materially affect the business, operations, prospects, assets, liabilities or financial condition of the Borrower;

(iii) the occurrence of an Event of Default hereunder, or any event that, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

D. Default Notices. Upon receipt of any notices with respect to a default by the Borrower under the terms of any evidence of any indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto, the Borrower shall deliver copies of such notice to CFC.

E. Annual Certificates.

(i) Within one hundred twenty (120) days after the close of each calendar year, the Borrower will deliver to CFC a written statement, in form and substance satisfactory to CFC, signed by the Borrower's General Manager or Chief Executive Officer, stating that during such year, and that to the best of said person's knowledge, the Borrower has fulfilled all of its obligations under this Agreement, the Note, and the Mortgage throughout such year or, if there has been a default in the fulfillment of any such obligations, specifying each such default known to said person and the nature and status thereof.

(ii) The Borrower shall deliver to CFC within one hundred twenty (120) days after the close of each calendar year, a certification, in form and substance satisfactory to CFC, regarding the condition of the Mortgaged Property prepared by a professional engineer satisfactory to CFC. The Borrower shall also deliver to CFC such other information as CFC may reasonably request from time to time.

F. RESERVED.

G. Financial Books; Financial Reports; Right of Inspection. The Borrower will at all times keep, and safely preserve, proper books, records and accounts in which full and true entries will be made of all of the dealings, business and affairs of the Borrower, in accordance with Accounting Requirements. When requested by CFC, the Borrower will prepare and furnish CFC from time to time, periodic financial and statistical reports on its condition and operations. All of such reports shall be in such form and include such information as may be specified by CFC. Within one hundred twenty (120) days of the end of each calendar year during the term hereof, the Borrower shall furnish to CFC a full and complete report of its financial condition and statement of its operations as of the end of such calendar year, in form and substance satisfactory to CFC. In addition, within one hundred twenty (120) days of the end of each the Borrower's fiscal years during the term hereof, the Borrower shall furnish to CFC a full and complete consolidated and consolidating report of its financial condition and statement of its operations as of the end of such fiscal year, audited and certified by independent certified public accountants nationally recognized or otherwise satisfactory to CFC and accompanied by a report of such audit in form and substance satisfactory to CFC, including without limitation a consolidated and consolidating balance sheet and the related consolidated and consolidating statements of income and cash flow. CFC, through its representatives, shall at all times during reasonable business hours and upon prior notice have access to, and the right to inspect and make copies of, any or all books, records and accounts, and any or all invoices, contracts, leases, payrolls, canceled checks, statements and other documents and papers of every kind belonging to or in the possession of the Borrower or in anyway pertaining to its property or business.

H. Notice of Additional Secured Debt. The Borrower will notify CFC promptly in writing if it incurs any additional secured indebtedness other than indebtedness to CFC or indebtedness otherwise provided for in the Mortgage.

I. RESERVED.

J. Compliance With Laws. The Borrower and each Subsidiary shall remain in compliance, in all material respects, with all applicable requirements of law and applicable rules and regulations of each Governmental Authority.

K. Taxes. The Borrower shall pay, or cause to be paid all taxes, assessments or governmental charges lawfully levied or imposed on or against it and its properties prior to the time they become delinquent, except for any taxes, assessments or charges that are being contested in good faith and with respect to which adequate reserves as determined in good faith by the Borrower have been established and are being maintained.

L. Further Assurances. The Borrower shall execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which may be required under any applicable law, or which CFC may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created thereby. The Borrower also agrees to provide to CFC, from time to time upon request, evidence reasonably satisfactory to CFC as to the perfection and priority of the Liens created or intended to be created by the Loan Documents.

M. Environmental Covenants. Borrower shall:

(i) at its own cost, comply in all material respects with all applicable Environmental Laws, including, but not limited to, any required remediation; and

(ii) if it receives any written communication alleging Borrower's violation of any Environmental Law, provide CFC with a copy thereof within ten (10) Business Days after receipt, and promptly take appropriate action to remedy, cure, defend, or otherwise affirmatively respond to the matter.

N. Limitations on Loans, Investments and Other Obligations. The aggregate amount of all purchases, investments, loans, guarantees, commitments and other obligations described in Section 5.02.D(i). of this Agreement shall at all times be less than fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity, whichever is greater.

O. Special Covenants. The Borrower agrees that it will comply with any special covenants identified in Schedule 1 hereto.

Section 5.02 Negative Covenants. The Borrower covenants and agrees with CFC that until payment in full of the Note and performance of all obligations of the Borrower hereunder, the Borrower will not, directly or indirectly, without CFC's prior written consent:

A. Limitations on Mergers. Consolidate with, merge, or sell all or substantially all of its business or assets, or enter into an agreement for such consolidation, merger or sale, to another entity or person unless such action is either approved, as is evidenced by the prior written consent of CFC, or the purchaser, successor or resulting corporation is or becomes a member in good standing of CFC and assumes the due and punctual payment of the Note and the due and punctual performance of the covenants contained in the Mortgage and this Agreement.

B. Limitations on Sale, Lease or Transfer of Capital Assets; Application of Proceeds. Sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset, except in accordance with this Section 5.02.B. If no Event of Default (and no event which with notice or lapse of time and notice would become an Event of Default) shall have occurred and be continuing, the Borrower may, without the prior written consent of CFC, sell, lease or transfer (or enter into an agreement to sell, lease or transfer) any capital asset in exchange for fair market value consideration paid to the Borrower if the value of such capital asset is less than five percent (5%) of Total Utility Plant and the aggregate value of capital assets sold, leased or transferred in any 12-month period is less than ten percent (10%) of Total Utility Plant. If the Borrower does sell, lease or transfer any capital assets, then the proceeds thereof (less ordinary and reasonable expenses incident to such transaction) shall immediately (i) be applied as a prepayment of the Note, to such installments as may be designated by CFC at the time of any such prepayment; (ii) in the case of dispositions of equipment, material or scrap, applied to the purchase of other property useful in the Borrower's business, although not necessarily of the same kind as the property disposed of, which shall forthwith become subject to the lien of the Mortgage; or (iii) applied to the acquisition or construction of other property or in reimbursement of the costs of such property.

C. Limitation on Dividends, Patronage Refunds and Other Distributions.

(i) Make Distributions in any calendar year if, after giving effect to the Distribution, the total Equity of the Borrower will be less than twenty percent (20%) of its Total Assets.

(ii) If, after giving effect to the Distribution, the total Equity of the Borrower will be less than twenty percent (20%) of its Total Assets, then the Borrower may nevertheless make Distributions of up to thirty percent (30%) of its total margins for the preceding calendar year.

(iii) Notwithstanding anything to the contrary in subparagraphs (i) and (ii) above, the Borrower shall not make any Distribution without the prior written consent of CFC if an Event of Default under this Agreement has occurred and is continuing.

D. Limitations on Loans, Investments and Other Obligations.

(i) (a) Purchase, or make any commitment to purchase, any stock, bonds, notes, debentures, or other securities or obligations of or beneficial interests in, (b) make, or enter into a commitment to make, any other investment, monetary or otherwise, in, (c) make, or enter into a commitment to make, any loan to, or (d) guarantee, assume, or otherwise become liable for, or enter into a commitment to guarantee, assume, or otherwise become liable for, any obligation of any Person if, after giving effect to such purchase, investment, loan, guarantee or commitment, the aggregate amount thereof would exceed the greater of fifteen percent (15%) of Total Utility Plant or fifty percent (50%) of Equity.

(ii) The following shall not be included in the limitation of purchases, investments, loans and guarantees in (i) above: (a) bonds, notes, debentures, stock, or other securities or obligations issued by or guaranteed by the United States or any agency or instrumentality thereof; (b) bonds, notes, debentures, stock, commercial paper, subordinated capital certificates, or any other security or obligation issued by CFC or by institutions whose senior unsecured debt obligations are rated by at least two nationally recognized rating organizations in either of their two highest categories; (c) investments incidental to loans made by CFC; (d) any deposit that is fully insured by the United States; (e) loans and grants made by any Governmental Authority to the Borrower under any rural economic development program, but only to the extent that such loans and grants are non-recourse to the Borrower; and (f) unretired patronage capital allocated to the Borrower by CFC, a cooperative from which the Borrower purchases electric power, or a statewide cooperative association of which Borrower is a member.

(iii) In no event may the Borrower take any action pursuant to subsection (i) if an Event of Default under this Agreement has occurred and is continuing,

E. Organizational Change. Change its type of organization or other legal structure, except as permitted by Section 5.02.A. hereof, in which case the Borrower shall provide at least 30 days prior written notice to CFC together with all documentation reflecting such change as CFC may reasonably require.

F. Notice of Change in Borrower Information. Change its (i) state of incorporation, (ii) legal name, (iii) mailing address, or (iv) organizational identification number, if it has one, unless the Borrower provides written notice to CFC at least thirty (30) days prior to the effective date of any such change together with all documentation reflecting any such change as CFC may reasonably require.

ARTICLE VI
EVENTS OF DEFAULT

Section 6.01 The following shall be "Events of Default" under this Agreement:

A. Representations and Warranties. Any representation or warranty made by the Borrower herein, or in any of the other Loan Documents, or in any certificate or financial statement furnished to CFC hereunder or under any of the other Loan Documents shall prove to be false or misleading in any material respect.

B. Payment. The Borrower shall fail to pay (whether upon stated maturity, by acceleration, or otherwise) any principal, interest, premium (if any) or other amount payable under the Note and the Loan Documents within five (5) Business Days after the due date thereof.

C. Other Covenants.

(i) No Grace Period. Failure of the Borrower to observe or perform any covenant or agreement contained in Sections 5.01.A, 5.01.D, 5.01.E, 5.01.G, 5.01.N or 5.02 of this Agreement.

(ii) Thirty Day Grace Period. Failure of the Borrower to observe or perform any other covenant or agreement contained in this Agreement or any of the other Loan Documents, which shall remain unremedied for thirty (30) calendar days after written notice thereof shall have been given to the Borrower by CFC.

D. Legal Existence, Permits and Licenses. The Borrower shall forfeit or otherwise be deprived of (i) its authority to conduct business in the jurisdiction in which it is organized or in any other jurisdiction where such authority is required in order for the Borrower to conduct its business in such jurisdiction or (ii) permits, easements, consents or licenses required to carry on any material portion of its business.

E. Other CFC Obligations. The Borrower shall be in breach or default of any Obligation, which breach or default continues uncured beyond the expiration of any applicable grace period.

F. Other Obligations. The Borrower shall (i) fail to make any payment of any principal, premium or any other amount due or interest on any indebtedness with parties other than CFC which shall remain unpaid beyond the expiration of any applicable grace period, or (ii) be in breach or default with respect to any other term of any evidence of any other indebtedness with parties other than CFC or of any loan agreement, mortgage or other agreement relating thereto which breach or default continues uncured beyond the expiration of any applicable grace period, if the effect of such failure, default or breach is to cause the holder or holders of that indebtedness to cause that indebtedness to become or be declared due prior to its stated maturity (upon the giving or receiving of notice, lapse of time, both or otherwise).

G. Involuntary Bankruptcy. An involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it

or any substantial part of its property and such involuntary case or other proceeding shall continue without dismissal or stay for a period of sixty (60) days; or an order for relief shall be entered against the Borrower under the federal bankruptcy laws or applicable state law as now or hereafter in effect.

H. Insolvency. The Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to, or be generally unable to, pay its debts as they become due, or shall take any action to authorize any of the foregoing.

I. Dissolution or Liquidation. Other than as provided in subsection H. above, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as will impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within sixty (60) days. The term "dissolution or liquidation of the Borrower", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions set forth in Section 5.02.A.

J. Material Adverse Change. Any material adverse change in the business or condition, financial or otherwise, of the Borrower.

K. Monetary Judgment. The Borrower shall suffer any money judgment not covered by insurance, writ or warrant of attachment or similar process involving an amount in excess of \$100,000 and shall not discharge, vacate, bond or stay the same within a period of sixty (60) days.

L. Nonmonetary Judgment. One or more nonmonetary judgments or orders (including, without limitation, injunctions, writs or warrants of attachment, garnishment, execution, distraint, replevin or similar process) shall be rendered against the Borrower that, either individually or in the aggregate, could reasonably be expected to have a material adverse effect upon the business, operations, prospects, assets, liabilities or financial condition of the Borrower.

ARTICLE VII

REMEDIES

Section 7.01 If any of the Events of Default listed in Section 6 hereof shall occur after the date of this Agreement and shall not have been remedied within the applicable grace periods specified therein, then CFC may:

- (i) Declare all unpaid principal outstanding on the Note, all accrued and unpaid interest thereon, and all other Obligations to be immediately due and payable and the same shall thereupon become immediately due and payable without

presentment, demand, protest or notice of any kind, all of which are hereby expressly waived;

- (ii) Exercise rights of setoff or recoupment and apply any and all amounts held, or hereby held, by CFC or owed to the Borrower or for the credit or account of the Borrower against any and all of the Obligations of the Borrower now or hereafter existing hereunder or under the Note, including, but not limited to, patronage capital allocations and retirements, money due to Borrower from equity certificates purchased from CFC, and any membership or other fees that would otherwise be returned to Borrower. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have. The Borrower waives all rights of setoff, deduction, recoupment or counterclaim;
- (iii) Pursue all rights and remedies available to CFC that are contemplated by the Mortgage and the other Loan Documents in the manner, upon the conditions, and with the effect provided in the Mortgage and the other Loan Documents, including, but not limited to, a suit for specific performance, injunctive relief or damages;
- (iv) Pursue any other rights and remedies available to CFC at law or in equity.

Nothing herein shall limit the right of CFC to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default. Each right, power and remedy of CFC shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 Amendment and Restatement. This Agreement constitutes "additional terms and conditions agreed to in writing by the parties", as referenced in the Original Loan Agreement. The parties hereto understand and agree that all of the terms, conditions and provisions of this Agreement shall supersede all of the terms, conditions and provisions of the Original Loan Agreement and that the rights and obligations of each shall be governed by this Agreement rather than the Original Loan Agreement from the Effective Date hereof.

Section 8.02 No Novation. This Agreement is not a novation of the indebtedness evidenced by the Original Loan Agreement, and the parties hereto negate any such novation thereof by reason of this Agreement.

Section 8.03 Reaffirmation. Borrower hereby unconditionally promises and agrees to pay, as and when due, interest on all amounts advanced under the CFC Commitment from the date of each Advance and to repay all amounts advanced under the Original Loan Agreement, as amended hereby, with interest thereon as provided in the Original Loan Agreement, as amended hereby. It is the express intent of the parties hereto that nothing in this Amendment shall be deemed or construed to limit, reduce or otherwise adversely affect the enforceability, validity or continuing nature of the guaranties executed in connection with the Original Loan Agreement, as amended hereby.

Section 8.01 Notices. All notices, requests and other communications provided for herein including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement shall be given or made in writing (including, without limitation, by telecopy) and delivered to the intended recipient at the "Address for Notices" specified below; or, as to any party, at such other address as shall be designated by such party in a notice to each other party. All such communications shall be deemed to have been duly given (i) when personally delivered including, without limitation, by overnight mail or courier service, (ii) in the case of notice by United States mail, certified or registered, postage prepaid, return receipt requested, upon receipt thereof, or (iii) in the case of notice by telecopy, upon transmission thereof, provided such transmission is promptly confirmed by either of the methods set forth in clauses (i) or (ii) above in each case given or addressed as provided for herein. The Address for Notices of each of the respective parties is as follows:

National Rural Utilities Cooperative Finance Corporation
 2201 Cooperative Way
 Herndon, Virginia 20171-3025
 Attention: Senior Vice President – Member Services
 Fax # 703-709-6776

The Borrower:

The address set forth in
 Schedule 1 hereto

Section 8.02 Expenses. Borrower shall reimburse CFC for any reasonable costs and out-of-pocket expenses paid or incurred by CFC (including, without limitation, reasonable fees and expenses of outside attorneys, paralegals and consultants) for all actions CFC takes, (a) to enforce the payment of any Obligation, to effect collection of any Mortgaged Property, or in preparation for such enforcement or collection, (b) to institute, maintain, preserve, enforce and foreclose on CFC's security interest in or Lien on any of the Mortgaged Property, whether through judicial proceedings or otherwise, (c) to restructure any of the Obligations, (d) to review, approve or grant any consents or waivers hereunder, (e) to prepare, negotiate, execute, deliver, review, amend or modify this Agreement, and (f) to prepare, negotiate, execute, deliver, review, amend or modify any other agreements, documents and instruments deemed necessary or appropriate by CFC in connection with any of the foregoing.

The amount of all such expenses identified in this Section 8.02 shall be secured by the Mortgage and shall be payable upon demand, and if not paid, shall accrue interest at the then prevailing CFC Variable Rate plus two hundred basis points.

Section 8.03 Late Payments. If payment of any amount due hereunder is not received at CFC's office in Herndon, Virginia, or such other location as CFC may designate to the Borrower within five (5) Business Days after the due date thereof, the Borrower will pay to CFC, in addition to all other amounts due under the terms of the Loan Documents, any late payment charge as may be fixed by CFC from time to time pursuant to its policies of general application as in effect from time to time.

Section 8.04. Non-Business Day Payments. If any payment to be made by the Borrower hereunder shall become due on a day which is not a Business Day, such payment

shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment.

Section 8.05 Filing Fees. To the extent permitted by law, the Borrower agrees to pay all expenses of CFC (including the reasonable fees and expenses of its counsel) in connection with the filing, registration, recordation or perfection of the Mortgage and any other security instruments as may be required by CFC in connection with this Agreement, including, without limitation, all documentary stamps, recordation and transfer taxes and other costs and taxes incident to execution, filing, registration or recordation of any document or instrument in connection herewith. The Borrower agrees to save harmless and indemnify CFC from and against any liability resulting from the failure to pay any required documentary stamps, recordation and transfer taxes, recording costs, or any other expenses incurred by CFC in connection with this Agreement. The provisions of this subsection shall survive the execution and delivery of this Agreement and the payment of all other amounts due under the Loan Documents.

Section 8.06 Waiver; Modification. No failure on the part of CFC to exercise, and no delay in exercising, any right or power hereunder or under the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise by CFC of any right hereunder, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement, the Note or the other Loan Documents and no consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent, and then such modification, waiver or consent shall be effective only in the specific instance and for the purpose for which given.

SECTION 8.07 GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

(A) THE PERFORMANCE AND CONSTRUCTION OF THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

(B) THE BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE UNITED STATES COURTS LOCATED IN VIRGINIA AND OF ANY STATE COURT SO LOCATED FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE BORROWER IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTIONS THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDINGS BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(C) THE BORROWER AND CFC EACH HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 8.08 INDEMNIFICATION. THE BORROWER HEREBY INDEMNIFIES AND AGREES TO HOLD HARMLESS, AND DEFEND CFC AND ITS MEMBERS, DIRECTORS,

OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS AND REPRESENTATIVES (EACH AN "INDEMNITEE") FOR, FROM, AND AGAINST ALL CLAIMS, DAMAGES, LOSSES, LIABILITIES, COSTS, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, COSTS AND EXPENSES OF LITIGATION AND REASONABLE ATTORNEYS' FEES) ARISING FROM ANY CLAIM OR DEMAND IN RESPECT OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, THE MORTGAGED PROPERTY, OR THE TRANSACTIONS DESCRIBED IN THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AND ARISING AT ANY TIME, WHETHER BEFORE OR AFTER PAYMENT AND PERFORMANCE OF ALL OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS IN FULL, EXCEPTING ANY SUCH MATTERS ARISING SOLELY FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF CFC OR ANY INDEMNITEE. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN SECTION 8.10 HEREOF, THE OBLIGATIONS IMPOSED UPON THE BORROWER BY THIS SECTION SHALL SURVIVE THE REPAYMENT OF THE NOTE, THE TERMINATION OF THIS AGREEMENT AND THE TERMINATION OR RELEASE OF THE LIEN OF THE MORTGAGE.

Section 8.09 Complete Agreement. This Agreement, together with the schedules to this Agreement, the Note and the other Loan Documents, and the other agreements and matters referred to herein or by their terms referring hereto, is intended by the parties as a final expression of their agreement and is intended as a complete statement of the terms and conditions of their agreement. In the event of any conflict in the terms and provisions of this Agreement and any other Loan Documents, the terms and provisions of this Agreement shall control.

Section 8.10 Survival; Successors and Assigns. All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall survive the execution and delivery to CFC of the Loan Documents and the making of the Loan hereunder and shall continue in full force and effect until all of the obligations under the Loan Documents have been paid in full. All covenants, agreements, representations and warranties of the Borrower which are contained in this Agreement shall inure to the benefit of the successors and assigns of CFC. The Borrower shall not have the right to assign its rights or obligations under this Agreement without the prior written consent of CFC, except as provided in Section 5.02.A hereof.

Section 8.11 Use of Terms. The use of the singular herein shall also refer to the plural, and vice versa.

Section 8.12 Headings. The headings and sub-headings contained in this Agreement are intended to be used for convenience only and do not constitute part of this Agreement.

Section 8.13 Severability. If any term, provision or condition, or any part thereof, of this Agreement, the Note or the other Loan Documents shall for any reason be found or held invalid or unenforceable by any governmental agency or court of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement, the Note and the other Loan Documents shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

Section 8.14. Prior Loan Documents. It is understood and agreed that all of the terms, conditions and provisions of this Agreement shall supersede all of the terms, conditions and provisions of all Prior Loan Documents, *except for* (a) representations and warranties

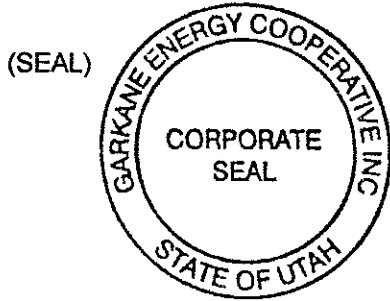
contained in any Prior Loan Document, which shall continue to apply to the loan or loans referenced in the Prior Loan Document, (b) conditions precedent to the making of any Advance under a Prior Loan Document, and (c) any special covenants, conditions or other specific terms set forth on Schedule 1 to any Prior Loan Document, unless otherwise explicitly agreed to in writing by CFC, or superseded by explicit reference thereto in this Agreement. For purposes of the foregoing, this Section 8.14 shall be deemed to amend all Prior Loan Documents, and notwithstanding termination of this Agreement for any reason, this Section 8.14 shall nevertheless survive and shall continue to amend each Prior Loan Document for as long as the respective Prior Loan Document is in effect, but only with respect to the matters set forth in this Section 8.14.

Section 8.15 Binding Effect. This Agreement shall become effective when it shall have been executed by both the Borrower and CFC and thereafter shall be binding upon and inure to the benefit of the Borrower and CFC and their respective successors and assigns.

Section 8.16 Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same document. Signature pages may be detached from the counterparts and attached to a single copy of this Agreement to physically form one document.

Section 8.17 Schedule 1. Schedule 1 attached hereto is an integral part of this Agreement.

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



GARKANE ENERGY COOPERATIVE, INC.

By: [Signature]

Title: President

Attest: [Signature]
Secretary

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

(SEAL)

By: _____
Assistant Secretary-Treasurer

Attest: _____
Assistant Secretary-Treasurer

SCHEDULE 1

1. The aggregate CFC Commitment is \$4,500,000.00.
2. The Mortgage shall mean the Restated Mortgage and Security Agreement, dated November 1, 1999, between the Borrower, RUS and CFC, as it may have been supplemented, amended, consolidated, or restated from time to time.
3. The Substitute Note executed pursuant hereto is as follows:

LOAN NUMBER	AMOUNT
UT006-U-9015	\$4,500,000.00

4. The Payment Date months are February, May, August and November.
5. The Subsidiaries of the Borrower referred to in Section 2.01.B. are:

<u>Name of Subsidiary</u>	<u>% of Borrower's ownership</u>
Garkane Propane, Inc.	100%
6. The date of the Borrower's balance sheet referred to in Section 2.01.H is December 31, 2008.
9. The Borrower's exact legal name is: Garkane Energy Cooperative, Inc.
10. The Borrower's organizational type is: Corporation
11. The Borrower is organized under the laws of the state of: Utah
12. The Borrower's organizational identification number is: 559999-0140
13. The place of business or, if more than one, the chief executive office of the Borrower referred to in Section 2.01.I is 120 W 300 South, Loa, Utah 84747.
14. The Governmental Authority referred to in Section 2.01.J. is: Arizona Corporation Commission and Utah Public Service Commission
17. The address for notices to the Borrower referred to in Section 8.01 is PO Box 465, Loa, Utah 84747, Attention: General Manager, Fax: (435) 836-2497.

ATTACHMENT NO. 2

TO THE

**VERIFIED APPLICATION FOR APPROVAL
OF ISSUANCE OF SECURITIES**

**“SUBSTITUTE SECURED
PROMISSORY NOTE”**

SUBSTITUTE SECURED PROMISSORY NOTE

\$4,500,000.00

dated as of April 22, 2009

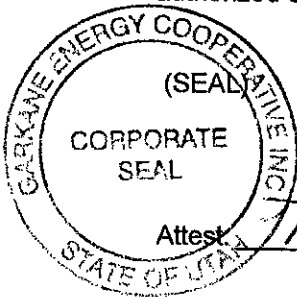
GARKANE ENERGY COOPERATIVE, INC., a Utah corporation (the "Borrower"), for value received, hereby promises to pay, without setoff, deduction, recoupment or counterclaim, to the order of NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION (the "Payee"), at its office in Herndon, Virginia office or such other location as the Payee may designate to the Borrower, in lawful money of the United States, the principal sum of FOUR MILLION FIVE HUNDRED THOUSAND AND 00/100 DOLLARS (\$4,500,000.00), or such lesser sum of the aggregate unpaid principal amount of all advances made by the Payee pursuant to that certain Loan Agreement dated as of November 1, 1999, as amended and restated by the Amended and Restated Loan Agreement, dated as of even date herewith, each between the Borrower and the Payee, as it may be amended from time to time (herein called the "Loan Agreement"), and to pay interest on all amounts remaining unpaid hereunder from the date of each advance in like money, at said office, at the rate and in amounts and payable on the dates provided in the Loan Agreement together with any other amount payable under the Loan Agreement. If not sooner paid, any balance of the principal amount and interest accrued thereon shall be due and payable on November 1, 2034 (such date herein called the "Maturity Date") *provided, however*, that if such date is not a Payment Date (as defined in the Loan Agreement), then the Maturity Date shall be the Payment Date immediately preceding such date.

This Note is secured under a Restated Mortgage and Security Agreement dated as of November 1, 1999 between the Borrower, the United States of America and the Payee, as it may have been or shall be supplemented, amended, consolidated or restated from time to time ("Mortgage"). This Note is made in substitution and lieu of the Promissory Note designated UT 06-U-9015 dated as of November 1, 1999 made by Borrower under its former name, Garkane Power Association, Inc. and shall not constitute a novation of the indebtedness evidenced thereby. This Note is the Note referred to in, and has been executed and delivered pursuant to, the Loan Agreement.

The principal hereof and interest accrued thereon and any other amount due under the Loan Agreement may be declared to be forthwith due and payable in the manner, upon the conditions, and with the effect provided in the Mortgage or the Loan Agreement.

The Borrower waives demand, presentment for payment, notice of dishonor, protest, notice of protest, and notice of non-payment of this Note.

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



Terry Kuffel
Secretary

GARKANE ENERGY COOPERATIVE, INC.

By: *[Signature]*
Title: President

Loan No.: UT 06-U-9015

ATTACHMENT NO. 3

TO THE

**VERIFIED APPLICATION FOR APPROVAL
OF ISSUANCE OF SECURITIES**

**“PORTIONS OF THE MINUTES OF THE REGULARLY SCHEDULED
GARKANE BOARD MEETING APPROVING THE SUBSTITUTE LONG-TERM LOAN
FACILITY”**

Garkane Energy Cooperative, Inc.
BOARD MEETING MINUTES, cont.
April 22, 2009
Page 2

responded to questions. A motion was made to approve Board Policy No. 317. The motion passed. (See attached policy)

Board Policy No. 432, Safety Incentive Program – Mr. Albrecht reviewed proposed Board Policy No. 432, Safety Incentive Program. Mr. Chappell reviewed a cost and savings analysis and responded to questions. A motion was made to approve Board Policy No. 432. The motion passed. (See attached policy)

2009 Charles A. Caine Award for Workplace Safety – Mr. Albrecht reported Garkane has been awarded a 2009 Charles A. Caine Award for Workplace Safety from Workers Compensation Fund, which will be awarded at a luncheon on June 4, 2009 at Little America. Garkane was one of eight companies in Utah to receive this award for 2009.

Safety Accreditation Field Inspection Letter – Mr. Albrecht reviewed a letter from the RESAP Inspection Team thanking Garkane for the hospitality and cooperation during the recent Safety Accreditation Field Inspection. The letter indicated Garkane's score was 96%. Mr. Chappell reviewed the most recent three-year average of OSHA's Incident Rate for Garkane's last accreditation cycle.

Mr. Albrecht expressed appreciation to Mr. Chappell for the development and enhancement of Garkane's culture of safety.

Mr. Chappell distributed a copy of an article entitled, "The Need for Safety Culture in the Utilities Industry" for the Board's review.

Mr. Chappell left the meeting at 3:00 p.m.

CFC Loan Conversion - Mr. Albrecht reported the documentation had been received to convert Garkane's RUS guaranteed loan to a CFC loan, making Garkane a 100% CFC Borrower. He reviewed a letter addressing the issues of right-of-ways and FERC jurisdiction. The loan will retain the RUS loan rate of 4.65%. A motion was made to execute the conversion documents. The motion passed.

CFC Forum 2009 – Mr. Albrecht reported the CFC Forum is scheduled for June 16-18, 2009 in Denver. Director Joseph reported she will be attending with Deseret Power.

ATTACHMENT NO. 4

TO THE

**VERIFIED APPLICATION FOR APPROVAL
OF ISSUANCE OF SECURITIES**

**“REPORT AND ORDER
ISSUED: JANUARY 27, 2000”**

99-028-01 Report and Order (1/27/00) Garkane Power Association - Authority

1/28/00 11:36 AM

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

File

In the Matter of the Application of)
GARKANE POWER ASSOCIATION,)
INC., for Authority to Borrow \$4,546,000)
from the National Rural Utilities)
Cooperative Finance Corporation under the)
Guaranteed Loan Program)

DOCKET NO. 99-028-01

REPORT AND ORDER

ISSUED: January 27, 2000

By The Commission:

PROCEDURAL HISTORY

Garkane Power Association ("Applicant") filed its application May 18, 1999, for approval of a proposal to borrow \$4,546,000 from the National Rural Utilities Cooperative Finance Corporation ("NRUCFC"). Part of the proceeds of the loan was to finance a new headquarters building for Applicant. That part of the proposal engendered opposition culminating in a settlement agreement filed with the Commission December 7, 1999. The original application and settlement agreement were referred for review to the Division of Public Utilities, Utah Department of Commerce (DPU), which filed a memorandum January 13, 2000, recommending approval of the proposal as modified by the settlement agreement.

Since the controversy between Applicant's board and its dissenting members has been resolved, and the proposal does not appear to contravene public policy, we have determined to dispose of the matter without further proceedings. Applicant having made out its case, as modified by the settlement agreement, we enter the following

ORDER

WHEREFORE, IT IS HEREBY ORDERED, that:

- The settlement agreement dated November 29, 1999, between Applicant and intervenors Mark Fuellenbach, Marjorie P. Fuellenbach, Vernon D. Roundy, Kip L. Wilson, Dennis K. Jorgensen, Milton Taft, Jeff Christensen, Stan C. Powell, Brent Bastian, Alvin H. Hardman, Keith Max Waters, and Brad Staples be, and it is, approved.
- As modified by the aforesaid settlement agreement, the Application for authority to borrow from the NRUCFC be, and it is, granted.

DATED at Salt Lake City, Utah, this 27th day of January, 2000.

/s/ Stephen F. Mccham, Chairman

/s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary