

RESOLUTION NO. 853

A Resolution Approving Central Electric Cooperative, Inc.'s \$300,000.00 Loan and Authorizing Execution of Loan Documents.

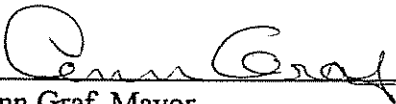
RECITALS

- A. The City of Prineville has need for funds to construct a natural gas pipeline to serve the City of Prineville-Crook County Airport Industrial Area.
- B. A \$300,000.00 zero interest loan has been procured by Central Electric Cooperative, Inc., which will be passed through to the City of Prineville for the above purpose.
- C. In order to access the loan, the City of Prineville has to approve the loan documents required by Rural Business-Cooperative Service.

Now, therefore, based upon the above Recitals, the City of Prineville resolves as follows:

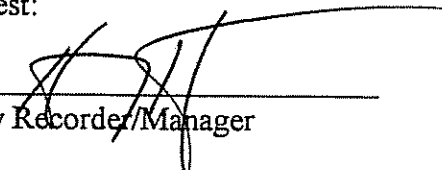
- 1. The loan from Central Electric Cooperative, Inc., is hereby approved.
- 2. The loan documents attached to this Resolution are hereby approved;
- 3. The Mayor, City Manager, and any other officials or employees of the City of Prineville are authorized and instructed to execute the promissory note and security agreement and any and all other loan documents as required by Central Electric Cooperative, Inc., or Rural Business - Cooperative Service.

Dated July 27th, 1999



Ann Graf, Mayor

Attest:



City Recorder/Manager

CEC/PRINEVILLE GAS PIPELINE SECURITY AGREEMENT

Central Electric Cooperative, Inc. (CEC) and the City of Prineville agree as follows:

1. CEC is obtaining a zero-interest Rural Economic Development loan in the amount of \$300,000 from the Rural Business Cooperative Service (RBS) of the United States Department of Agriculture for purposes of partially financing the construction of a gas pipeline extension to Baldwin Industrial Park. The gas pipeline project contemplated by this Rural Economic Development loan is described on the APPLICATION ANALYSIS AND PROJECT EVALUATION SUMMARY submitted by CEC to RBS which is attached as Exhibit "A" and is made a part of this agreement.
2. CEC shall make this \$300,000 interest free loan available to Prineville in order to permit Prineville, together with other funds, to pay for the construction and installation of the gas pipeline by Cascade Natural Gas Corporation. Prineville agrees to use the \$300,000 loan proceeds and repay the \$300,000 to CEC according to the following terms and conditions:
 - 2.1 Prineville shall use the \$300,000 loan proceeds in accordance with, and otherwise comply, with all of the terms and conditions of the RBS loan to CEC. The terms and conditions of the RBS loan to CEC are set out in the following documents which are attached as a part of this CEC/PRINEVILLE GAS PIPELINE SECURITY AGREEMENT.
 - 2.1.1 CENTRAL ELECTRIC COOPERATIVE, INC. LOAN AGREEMENT between CEC and the City of Prineville dated which is attached as Exhibit "L".
 - 2.1.2 The RURAL ECONOMIC DEVELOPMENT LOAN LETTER OF AGREEMENT between CEC and RBS dated February 2, 1999 (together with Amendment No. 1 dated May 13, 1999) which is attached as Exhibit "B".
 - 2.1.3 The RURAL DEVELOPMENT LOAN AGREEMENT between CEC and The United States of America which is attached as Exhibit "C".
 - 2.1.4 The \$300,000 PROMISSORY NOTE from CEC to The United States of America which is attached as Exhibit "D".
 - 2.1.5 U.S. DEPARTMENT OF AGRICULTURE Certification Regarding Debarment, Suspension, Ineligibility, Involuntary

Exclusion - Lower Tier Covered Transactions which is attached as Exhibit "E".

2.1.6 MANAGEMENT AND REPRESENTATION LETTER BY RBS BORROWER which is attached as Exhibit "F".

2.1.7 MANAGEMENT AND REPRESENTATION LETTER BY LOAN RECIPIENT which is attached as Exhibit "G".

2.1.8 IRREVOCABLE LETTER OF CREDIT which is attached as Exhibit "H".

2.1.9 LETTER OF CREDIT APPLICATION AND AGREEMENT which is attached as Exhibit "I".

2.1.10 RUS BUY-OUT LETTER OF CREDIT DOCUMENTS which is attached as Exhibit "J".

2.1.11 CASCADE NATURAL GAS LETTER DATED APRIL 9, 1999 TO DOUG ERTNER, CEC'S ACCOUNT EXECUTIVE which is attached as Exhibit "K".

2.2 Prineville shall repay the \$300,000 loan, together with the expenses incurred by CEC in connection with this transaction (which shall include, but not be limited to loan fees, attorney fees and the like) to CEC on the same terms and conditions as CEC shall be required to repay RBS according to the terms and conditions of CEC's Promissory Note owed to RBS. This repayment obligation of Prineville shall be evidenced by its Promissory Note to CEC which is attached as a part of this CEC/PRINEVILLE GAS PIPELINE SECURITY AGREEMENT.

3. In addition to complying with all of the terms and conditions of the CEC/RBS loan documents described above, Prineville shall comply with all applicable laws, rules and regulations in the receipt and disbursement of the loan proceeds and construction of the gas pipeline. Prineville shall also do whatever is required to cooperate with CEC in CEC's performance of its obligations to RBS in connection with this Rural Economic Development loan.

4. As a Security Agreement to secure the payment of Prineville's Promissory Note to CEC Prineville hereby assigns and pledges to CEC for security purposes, all of the revenues received by Prineville from the gas pipeline; all franchise fees received by Prineville from the gas pipeline; and all rental revenues received by Prineville from

properties served by the gas pipeline. CEC shall have all remedies provided by law for the enforcement of this Security Agreement.

DATED: _____, 1999.

CITY OF PRINEVILLE

CENTRAL ELECTRIC COOPERATIVE, INC.

By: City Manager

By: Al Gonzalez, President and CEO

APPLICATION ANALYSIS AND PROJECT EVALUATION SUMMARY

Good job!

80%

SUBJECT: Oregon ~~to~~ *Deschutes* (*Proposed PUS utility*)
BORROWER: Central Electric Cooperative, Inc., Redmond, Oregon
PROJECT: City of Prineville, Natural Gas Pipeline extension to Industrial Park.
APPLICATION AMOUNT: \$300,000 Loan

PROJECT DESCRIPTION:

Central Electric Cooperative, Inc. (Borrower), is requesting a \$300,000 zero-interest loan to assist the City of Prineville in financing a 4-inch diameter steel, high-pressure, natural gas pipeline for the first phase of Baldwin Industrial Park.

Detailed description:

Central Electric Cooperative, Inc. of Redmond Oregon is requesting a \$300,000 zero-interest Rural Economic Development loan which would be passed through to the City of Prineville. The loan would be used to install a natural gas pipeline to the first phase of Baldwin Industrial Park, and put in place the base infrastructure for future service with natural gas to the remainder of the Baldwin, Millican Road, and Houston Road Industrial Parks. Cascade Natural Gas in partnership with the City of Prineville, would build 12,900 feet of 4-inch diameter steel, high-pressure, natural gas transmission line and would also include installation of a pressure regulator station at Tom McCall Road to allow distribution service within all the industrial parks. Cascade Natural Gas has proposed development of future line placement in three phases. This project would fund Phase I and Phase II to meet current requirements. Cascade Natural Gas will participate in the engineering, site preparation, and placement of the gas lines by providing the City with \$276,000 in supplemental funding. Cascade Natural Gas would own and maintain the line after installation.

The recent completion by the City of Prineville of projects that provided the extension of public water and sewer facilities, together with other improvements including water system improvements, improved access and electrical power combined with the addition of the gas line, would complete the final step in the development of the fully serviced and developed industrial land base of 312 acres. Completion of the projects will total approximately \$4.2 million in Industrial Park development. The sewer/water project to the Industrial Park was planned to allow use of the existing easements and engineered for placement of the natural gas line within the same ditch used for the water and sewer lines.

The project has been reviewed and cleared as to environmental compliance, including flood hazard areas.

The Borrower has made the statement in its board resolution that the project will not violate the limitations in 7 CFR 1703.20, Ineligible uses of zero-interest loans and grants, and 1703.21, Limitations on Use of Zero Interest Loan and Grant Funds.

There does not appear to be a conflict of interest on this project (7 CFR 1703.20).

EXHIBIT "A"

The Borrower has clearly indicated that this project will not result in any transfer of employment or existing business. The project, therefore, complies with 7 CFR 1703.31.

USES OF RBS FUNDS:

The \$300,000 zero-interest loan will be applied to the cost of installing 12,900 feet of 4-inch diameter steel, high-pressure, natural gas transmission line as well as the installation of a pressure regulator station.

The Borrower has submitted the following breakdown of the costs for the project:

Construction	\$400,000
Administrative and legal expenses	\$106,000
Contingencies	<u>\$ 70,000</u>
Total Project:	\$576,000

The application indicated that the supplemental funds for this project will come from Cascade Natural Gas (\$276,000).

On June 1, 1998, the Borrower submitted in proper format a completed application as described in 1703.34(b) consisting of, among other things, an application form, SF 424, signed by an authorized official; a proper board resolution; a debarment and suspension certification form, AD 1047; an Assurance statement or certification required under the Uniform Act; contingent certifications in 1703.34(b)(4); a narrative discussing sections 1703.35 - 1703.37; a monitoring plan; and a Scope of Work. The Borrower is eligible for financing under 7 CFR 1703.16.

TOTAL ASSIGNED POINTS: 255

1703.46 (G) Selection Factors:

1. Nature of the Project (Maximum 50): 50

- i. This project will provide infrastructure necessary (natural gas pipeline) to connect existing and new businesses in the newly developed Crook County Industrial Parks to natural gas. The project will provide basic infrastructure necessary for successful business in the rural economy of Crook County, Oregon.
- ii. The project will promote economic development in rural Crook County on a non-profit basis. This project will allow the City of Prineville and Crook County to have a ready-to-go industrial park which will enhance retaining and attracting new industry to the area.
- iii. The project will very likely succeed as envisioned in the application. The pipeline is to be built, owned, and maintained by Cascade Natural Gas. Repayment of the loan to Central Electric Cooperative, Inc. by the City of Prineville will be made from franchise fees paid by Cascade Natural Gas to the City at 3% of the net sales in the Prineville city limits and the Industrial Parks.

2. Job Creation Project (Maximum 25): 15

The City of Prineville and the surrounding rural areas of Crook County are rated as the "highest single industry dependent area in the State by the Oregon State Employment Service, and the "dependent industry" is identified as the Wood Products Industry.

Within the past five years, this "dependent industry" has been severely curtailed primarily by the extreme reduction in the availability of raw materials from National Forest lands in the area. The direct impacts have been the closure of two wood manufactures in the community resulting in the loss of 125 jobs.

As a result of the loss of jobs from the mill closures and impact of the timber industry decreases, Crook County was placed on President Clinton's list of timber impacted areas in Oregon. The April, 1993 Forest Conference in Portland, Oregon led by President Clinton and Vice President Gore, resulted in an effort by the Federal Government to assist communities in the western portions of Washington, Oregon, and Northern California that were suffering economically due to the changes in management practices on Northwest forest lands. This Presidential effort is called the Northwest Economic Adjustment Initiative.

The Initiative sought to obtain local input on the types of assistance needed by these communities. To obtain this input, the Initiative provided for the establishment of the "Community Economic Revitalization Teams", made up of local, state, federal, tribal, and private industry representatives, who were familiar with local conditions and who could channel local input to the federal officials who are in charge of providing the federal assistance.

The Oregon State Community Economic Revitalization Team asked the analysts of the Oregon Economic Development Department and the Oregon Employment Division to prepare a list of communities in Oregon that would indicate the severity with which those communities had been, or were likely to be, economically impacted by the reduction in timber harvesting resulting from changes in the management of forest lands in Oregon. Crook County, Oregon, the location of the proposed project, was ranked fourth out of thirty-five communities in Oregon. There were only three other communities in the State more heavily impacted by reduced timber harvest than Crook County.

During the same period of time that Crook County was loosing timber jobs, the communities second largest single employer (Les Schwab Tire Company) had announced plans to develop a "regional" warehouse complex, and a company decision was considered of were to locate it. The site alternatives included Prineville, the Company's current home office, and locations in California and Washington. The loss of this facility in Crook County would have resulted in the loss of 25-40 existing jobs and the loss of the opportunity for an additional 50+ new jobs to be based at the warehouse complex. A current 1997 letter and listing of jobs created by retention of the firm in Crook County indicated that a total of 146 jobs are currently held by residents of the rural areas in Crook County and is an increase of 23 jobs since 1995.

The most critical factor concerning a location in the Prineville area was the absence of available serviced industrial lands. Therefore, the City undertook the projects necessary to retain the complex and support the community efforts to diversify the local community and help insure the future economy of the area.

The businesses that have located in the Industrial parks to be served by the project were guaranteed natural gas availability at the time they negotiated land purchase agreements with City of Prineville and Crook County. The City of Prineville is paying the difference between the cost of propane and natural gas for Mill Power Inc. until natural gas is provided to the company.

The following new businesses have located in the Industrial Park with the commitment of natural gas availability:

Les Schwab Distribution Center - 50 employees

Oregon Youth Authority Juvenile Facility - 50 employees

Mikes Custom Woodwork - 5 employees

Webs Cabinets - 4 employees

Steven's Heating and Cooling - 5 employees

Bob Kennedy General Construction - 5 to 8 employees

Aircraft Rubber Manufacturing - 30 employees

Craig Ironworks - 10 employees

Mill Power Inc. - 5 employees

Ryco Manufacturing - 5 employees

Batha Gold Cart Modification - 2 employees

The eleven lots that have been sold in the Industrial Park were sold in less than 12 months from the time they listed for sale. The businesses that located on these sites created 171 jobs. Thirteen vacant lots which would have natural gas availability upon project completion are available for sale. It is therefore assumed that at least another 171 jobs would be created upon project completion. The availability of natural gas to these 13 lots would make these properties easier to sell.

3. Long-Term Improvements in Economic Development (Maximum 25): 25

Providing natural gas to the Industrial Parks will provide the final service required to operate businesses in the parks in a cost effective manner. Future opportunities of the City to attract new industries and businesses will be enhanced by this service. The existence of a fully serviced commercial/industrial park area of 312 acres should also provide the basis for significant job growth in the area. This land base should support additional employment of approximately 500+ jobs. The "base" jobs-per-acre ratio utilized to project the total industrial employment that the Prineville Airport Industrial Development Area would sustain at full development was based on current employment ratios within the City of Prineville. In developing this "base", the City ratio, the City conducted a comprehensive analysis of all of the current industrial developments within the City and the general Urban Area. Based on that inventory data, the job ratio of all existing industrial development in the area was calculated to be four jobs per acre. Current industrial development in the area is consistent with that ratio. Therefore, with the initial public facility development project serving more than 150 acres of industrial lands, said project is fully expected to support at least 500+ additional jobs for the community. The businesses that have already built facilities within the park have added to the tax base of the City of Prineville and Crook County. When additional lots are sold in the Industrial Parks the City and County tax base will have additional increases.

4. Diversifying the Rural Economy or Alleviating Underemployment (Maximum 10): 10

The project will be located in the City of Prineville, Crook County, Oregon. The jobs created will be available for the residents of the un-incorporated areas of Crook County where the majority of the persons employed will live. The labor force will come from the Powell Butte community and the other rural areas of Crook County. The entire county has a population of 16,500 people. The businesses in the industrial parks to be served are creating job opportunities for the employees that were laid off in the lumber mill closures. The designation as a timber dependent community has affected the entire county, and emphasizes the need for diversity in the Industrial Park. The development of the Industrial parks and the businesses that have located and will continue to locate within them is providing a diversification to the Crook County Economy and creating jobs that are not relying upon timber from public lands. Jobs in the Industrial Parks are reducing the unemployment rate within the community.

1703.46 (H) Other Selection Factors:

1. Supplemental Funds (Maximum 30): 19

(Supplemental Funds to RBS Loan Amount) = Percent
 $(\$276,000 / \$300,000) * 100 = 92\%$

The application indicated that the supplemental funds for this project will come from Cascade Natural Gas.

2. Economic Conditions and Job Creation:

i. Unemployment Rates

National (Maximum 10): 10
(Crook County Compared to National)
 $(10.1\% / 4.9\%)*100 = 206\%$

State (Maximum 8): 8
(Crook County Compared to State)
 $(10.1\% / 5.8\%)*100 = 174\%$

ii. Per Capita Personal Income

National (Maximum 10): 10
(Crook County Compared to National)
 $(\$11,017/ \$14,420)*100 = 76\%$

State (Maximum 8): 8
(Crook County Compared to State)
 $(\$11,017/\$13418)*100 = 82\%$

iii. Population (Maximum 8): 0

The county had an increase in population of 1.2 percent from 1996 to 1998.

iv. Long-Term Jobs (Maximum 15): 15

The number of long-term jobs that the project will directly create in rural areas is projected to be 171 which results in 29 jobs per each \$100,000 of the total cost.

v. Projects that are part of a local, community-based, rural economic development program that would improve the local economy and enhance the well-being of rural residents (Maximum 10): 10

The industrial area being developed had previously been identified as a community priority through a Community Visioning Process and in the community's Economic Development Strategy Plan. Both of these "plans" were developed with considerable community involvement and input. An Intergovernmental Agreement Between Crook County and City of Prineville for the Airport Industrial Park has been developed. The Comprehensive Land Use Plan for City of Prineville identified one task for business recruitment of expanding the urban area to include the City-County Airport Development Area to serve as the interim base for new commercial and industrial development.

vi. Projects that have a written plan to provide opportunities or incentives to improve marketable skills for rural residents through training and/or education, or projects which consist of providing this training and/or education (Maximum 5): 0

The new businesses locating in the Industrial Parks are going to provide jobs that require training for skills not provided in Crook County previously. This training will provide the basis for long-term employment in the related fields. The training is available through the Central Oregon Community College Office of the Division of Business and Industry and adult education classes provided through Central Oregon Community College in Bend, Oregon or it's satellite in Prineville, Oregon. Other training is available through Central Oregon Intergovernmental Council and it's Job Training Partnership. Les Schwab Tire Company provides training for their employees.

3. Location (Maximum 20): 0

The project will be physically located within the boundaries of City of Prineville (Population 5,355 per the most recent decennial census).

Although the project will be located in City of Prineville, Crook County, Oregon, the majority of existing and created jobs in the industrial parks to be served will be held by residents of the un-incorporated areas of Crook County. The County has a total population of 16,500.

Support for Program - Cushion of Credit Payments (Maximum 15): 0

The borrower has paid it's RUS loans in full and has no funds in a Cushion of Credit Account.

*cushion of credit
want to see
we paid
off*

5. Demonstration Project (Maximum 5): 5

have no loans - some not paid ahead into cushion credit.

The application contains a written commitment from the owner(s) of the project that the project will be a demonstration project.

6. Probability of Success:

i. (Maximum 10): 10

The City of Prineville is administered by Henry Hartley, City Manager, Paul Capell, Mayor, and six City Council Members. In addition to the City Manager, the City has a full range of support staff common to a municipality within the State of Oregon.

The support staff includes, but is not limited to, a Chief Accountant, City Attorney (by retainer), Chief of Police, Fire Chief, EMS Director, Director of Planning and Community Development, Superintendent of Sewer and Water, Street Superintendent, Railroad Manager, and Airport Manager. The City's overall organization structure is of a "team approach", and all of the supervisory personnel for the City represent a minimum of 10+ years of experience in their respective areas of responsibilities.

It is further noted that during the tenure of the current administrative officers, the City has been involved in, and successfully completed with no noted deficiencies, a number of State, Federal, and other public improvement projects. The projects included:

- (1) Purchase of water system from Pacific Power and light in 1985.
- (2) \$10 million Wastewater system upgrade, which created a golf course as a wastewater disposal site.
- (3) Lamonta Road Industrial Park in 1985 - This park is built out to maximum occupancy and created approximately 150 jobs.
- (4) Airport Industrial Park(s) - had general direction and control over all aspects of project including running 11,000 feet of water and sewer lines.

The City's consulting engineers, David Evans and Associates, have successfully completed a number of public works for the City in recent years.

ii. (Maximum 40): 35

- x A. A description of the project (discussed earlier);
- x B. A description of the business, if applicable, its products, and the prospects of the industry;
- x C. What will be produced or accomplished;
- x D. The area to be served;
- E. Any market research or marketing plan;
- x F. Any operating plan;
- x G. Total project costs and projected use of funds by purpose or category (shown earlier);
- x H. A financial plan, including a feasibility study with projected balance sheets, income statements, and cash flow statements;

Summary of Analysis: A copy of City of Prineville Annual Budget was submitted with the application. The budget shows the income to be received from Cascade Natural Gas franchise fees, which will be used to repay the requested (REDL) Pass Through Loan. The City's authority to assess and collect a franchise fee for such a service within the City is provided for in Oregon Revised Statutes (ORS) 221.420. Pursuant to the provisions of said ORS 221.420, the current franchise agreement with Cascade Natural Gas is provided for by City Ordinance No. 835. Section 1 of said Ordinance provides that the subject specific franchise agreement is applicable to Cascade Natural Gas Corporation, its successors, and assigns.

- x I. The source of supplemental funds, the nature and strength of commitments from other sources of financing, and the equity contribution;
- x J. The proposed ownership and management of the project;
- x K. A description of any coordination with a local, regional, or state development organization; and
- x L. Other relevant information.

The main source of revenue that will be pledged towards repayment of the Rural Economic Development Loan will be the Franchise fees paid by Cascade Natural Gas at 3% of the net sales of gas in the Prineville city limits and Industrial Park.

City of Prineville will more easily attract businesses to locate within the industrial area served by the natural gas pipeline.

The following financial information has been provided by City of Prineville.

- a. Full Market Valuation for the three most current fiscal years.

1994-95	\$199,663,897
1995-96	\$222,890,634
1996-97	\$237,592,200
- b. There has been no operating deficit in the last five years.
- c. Funds pledged for loan repayment is pursuant to a duly executed Intergovernmental Agreement between the City and Crook County; proceeds from the sale of properties within the benefited area are designated for the purpose of loan repayment.
- d. The City has never defaulted on a debt.
- e. There is no pending litigation against the City.

iv. (Maximum 10): 10

The borrower submitted a high quality complete application. The borrower has submitted a description of its plans to monitor the project.

7. Special Economic Status (Up to 25): 15

Two lumber mills closed in Crook County in early 1996. This constituted the closing of two major sources of employment within the last three years. The Crook County unemployment rate increased from 7.8% in 1995 to 11.7% in 1996. The Counties most recent unemployment rate of 10.1% for 1997 is 2.3% higher than the 7.8% rate in 1995 before the two mill closures. This amount exceeds the 2% increase in unemployment required for the special economic status points.

MANAGEMENT AND FINANCIAL SITUATION OF BORROWER:

As of December 31, 1997:

Total Assets:	\$79,056,919
Equity/Asset Ratio:	39%
Times Interest Earned Ratio:	2.06
Debt Service Coverage:	3
Net Margins:	\$ 2,777,018

Could not locate utility's financial statements in application file.

We consider the management and financial condition of this borrower to be satisfactory for the success of this program and repayment of the \$300,000 zero-interest loan.

RUS BORROWER'S LOAN SECURITY:

Central Electric Cooperative is no longer an RUS borrower.

The RUS Borrowers Loan Security was not discussed in the application.

An irrevocable letter of credit issued on behalf of Central Electric Cooperative payable to ZBS will be required before funds are advanced.

STATUS OF RURAL ECONOMIC DEVELOPMENT LOANS AND GRANTS:

The Borrower has received no prior Rural Economic Development Loans or Grants.

Prepared By:

R. K. Haase
ROBERT K. HAASE
Cooperative Development Specialist



United States
Department of
Agriculture

Rural
Business-Cooperative
Service

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PHONE: (503) 414-3366
FAX: (503) 414-3398
Office Hours 8:00 am - 4:30 pm

February 2, 1999

RURAL ECONOMIC DEVELOPMENT LOAN LETTER OF AGREEMENT

Al Gonzales, President
Central Electric Cooperative, Inc.
PO Box 846
Redmond, OR 97756

Dear Mr. Gonzales:

We are pleased to announce that the application of the Central Electric Cooperative, Inc. (the Borrower) for a zero-interest loan in the amount of \$300,000 (the Loan) to partially finance the construction of a natural gas pipeline to the Baldwin Industrial Park, Prineville, Crook County, Oregon (the Project), has received approval of the Rural Business-Cooperative Service (RBS), subject to the following terms and conditions:

1. The Borrower covenants that the proceeds of the Loan shall be used solely for the purpose of providing funds for a \$300,000 loan from the Borrower to The City of Prineville (Prineville). The loan funds shall be used solely (a) to partially finance the construction of a four inch diameter steel high pressure natural gas pipeline (the Approved Purpose) for the first phase of Baldwin Industrial Park, as set forth in the Borrower's Application Materials or (b) to reimburse short-term financing and expenditures for the Approved Purpose. The Borrower further covenants that the proceeds of the Loan shall not be used to finance any costs or retire any indebtedness incurred for the Approved Purpose prior to RBS receipt on June 1, 1998, of the Application Materials. The Borrower's Application Materials are defined in the enclosed Rural Development Loan Agreement.
2. RBS shall be under no obligation to advance the Loan funds unless and until the Borrower has delivered to RBS evidence, satisfactory to RBS, that Prineville has obtained or received binding commitments for supplemental financing in the approximate amount of \$276,000 that is needed, in addition to the Loan proceeds, to ensure completion of the Project. A form for listing the sources of supplemental financing is enclosed. Please ensure that evidence of the availability of such financing is also provided.
3. RBS shall be under no obligation to advance the Loan funds unless and until the Borrower has delivered to RBS, for its review and approval, the final draft version of the loan agreement, the promissory note, and any security agreement which will be entered into between the Borrower and Prineville. These documents must be consistent with the requirements of 7 CFR Part 1703, Subpart B, Rural Economic Development Loan and Grant Program. These documents must be accompanied by a final draft version of an approving legal opinion from Prineville's attorney, in the form of a typical opinion given to a lender in the State of Oregon in commercial loan transactions, opining as to the legal authority of Prineville to execute the promissory note and perform its obligations under the loan agreement.

Rural Business-Cooperative Service is an Equal Opportunity Lender.
Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

EXHIBIT "E"

4. The Borrower covenants that after loan closing between the Borrower and Prineville, the Borrower will deliver to RBS a copy of the executed loan agreement, including lower tier debarment certification, the promissory note, and any security agreement entered into between the Borrower and Prineville, together with a copy of the legal opinion rendered by Prineville's counsel. The Borrower further covenants that it will obtain RBS written approval prior to revising or amending any agreement that has been reviewed and approved by RBS in connection with the advance of Loan funds, or executing, revising, or amending any other agreement between the Borrower and Prineville, as required under 7 CFR Part 1703, Subpart B, Rural Economic Development Loan and Grant Program.
5. The Borrower covenants that its loan agreement with Prineville will require Prineville to provide to the Borrower (a) an itemized list, with attached invoices, receipts, bills of sale, and other evidence, that shows the expenditures made on the Project for the Approved Purpose using the proceeds of the Loan which the Borrower lent to Prineville and (b) a signed certification from an authorized official of Prineville to the effect "I certify that the proceeds of the rural economic development loan from Central Electric Cooperative, Inc. were expended on the approved purposes shown on this list and the attached invoices, receipts, bills of sale, and other evidence represent the items shown on this list." Such invoices, receipts, bills of sale, and other evidence must at least total the amount of funds that have been provided to Prineville using the proceeds of the Loan. The certified list must be provided upon completion of the Project, or by the first anniversary of the date of the advance of funds to Prineville, whichever occurs first. If all funds have not been expended by the first anniversary, Prineville must provide to the Borrower a certified list of current expenditures and a statement of its intended expenditure schedule. Upon completion of the Project, Prineville must provide to the Borrower a final certified list of the expenditures, including the attachments.

The Borrower is required to maintain this certified list and the attachments at its premises for review by RBS representatives, auditors, or others conducting a review or audit of the Borrower and the expenditure of the proceeds of the Loan. The Borrower is also required to submit a duplicate certified listing of the expenditures and attachments to RBS for its files.

6. The Borrower covenants that its loan agreement with Prineville will require Prineville to expend the Borrower's loan funds which were provided from the proceeds of the Loan on the Approved Purposes by the second anniversary of the date of the advance of funds to Prineville, or such later date as RBS may approve in writing in furtherance of the purposes of the Rural Electrification Act of 1936, as amended. Funds that have not been expended by the second anniversary of the date of the advance of funds to Prineville, or such later date as RBS has approved, must be returned to the Borrower. The Borrower shall return as a prepayment on the RBS Note all unexpended funds that Prineville returns to the Borrower under the terms of the Borrower's agreement.
7. The Borrower covenants that it will provide to RBS, upon completion of the Project, a management representation letter certifying to the statements in Exhibit A of this Letter of Agreement.
8. The Borrower covenants that its loan agreement with Prineville will require Prineville to provide to RBS and the Borrower, upon completion of the Project, a management representation letter certifying to the statements in Exhibit B of this Letter of Agreement.

9. RBS shall be under no obligation to advance the Loan funds unless and until the Borrower has delivered to RBS a board resolution, satisfactory to RBS, that authorizes an official of the Borrower to request in writing the advance of the Loan from RBS.
10. RBS shall be under no obligation to advance the Loan funds unless and until the Borrower has taken all steps necessary to establish a Loan payment system using the customer initiated Automated Clearing House payment method.

These steps include sending to USDA, Rural Development, Deputy Chief Financial Officer, Cash Management Branch, FC-363, P.O. Box 200011, St. Louis, Missouri, 63120-0011, a completed enrollment form and either (1) a canceled or voided check on the account that the Borrower will use to make payments on the Loan or (2) a check specification sheet for the Bank and account to be used to make payments on the Loan that shows the Bank name and address, transit routing number, and the Borrower's name and account number. Upon enrollment, the Borrower will receive a Personal Identification Number (PIN) directly from Mellon Bank, Pittsburgh, Pennsylvania. Use of the PIN number is required to contact Mellon Bank to authorize loan payments.

11. RBS shall be under no obligation to advance the Loan funds unless and until the duly authorized officers of the Borrower execute and return to Mr. Robert K. Haase, Cooperative Development Specialist, RBS, the enclosed original Promissory Note, Rural Development Loan Agreement, and duplicate original of the Letter of Agreement.
12. RBS shall be under no obligation to advance the Loan funds unless and until the Borrower's attorney furnishes an approving legal opinion, in the form of the enclosed opinion, subject only to such modifications and exceptions as may be approved by the Office of the General Counsel, United States Department of Agriculture, Portland, Oregon. Any legal issues identified by the Borrower's counsel should be discussed and agreed to by counsel before the executed legal opinion is sent to Mr. Robert K. Haase, Cooperative Development Specialist.
13. RBS shall be under no obligation to advance the Loan funds unless and until the Borrower furnishes to RBS, in form and substance satisfactory to RBS, an irrevocable letter of credit in the amount of \$300,000 to ensure repayment of the Loan to the Government. The letter of credit shall be payable to RBS and issued on behalf of the Borrower.
14. After the Borrower has (a) returned the executed original loan documents and legal opinion described in this Letter of Agreement and (b) complied with the conditions in this Letter of Agreement prerequisite to the advance of the Loan funds to RBS satisfaction, the Borrower may submit a letter, signed by an authorized official and addressed to Mr. Robert K. Haase, Cooperative Development Specialist requesting the advance of Loan funds for specific Approved Purposes as described by this Letter of Agreement and the enclosed Rural Development Loan Agreement.
15. The Borrower and/or its project partners should consider the erection of a Project Construction Sign designed in accordance with the attached "Guide For Construction Sign" at the Project site within a timely period after construction is started. The sign must indicate that the project was funded by Central Electric Cooperative, Inc. through a loan from Rural Business-Cooperative Service (RBS) and must identify the Project Partners (Prineville), Project engineer and Project contractor(s).

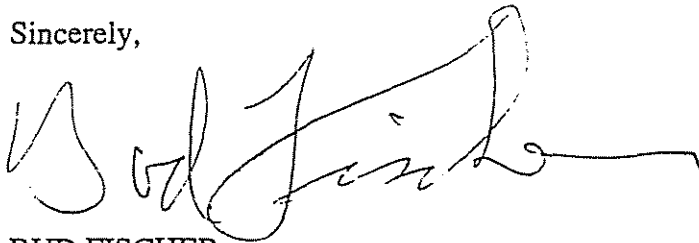
- 16. The Loan shall be subject to such additional terms, conditions, and restrictions as are contained in the enclosed Rural Development Loan Agreement and Promissory Note.

Please note that the enclosed certification form entitled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions" is for the signature of an authorized representative of Prineville. This certification form must be referenced in, and included as an exhibit to, the agreement covering the use of the proceeds of this Loan that you execute with Prineville. Prineville, in turn, must require these certifications in any lower tier covered transactions.

Please evidence the Borrower's acceptance of the terms and conditions of this Letter of Agreement by executing and dating the enclosed duplicate original in the space provided and returning it to Mr. Robert K. Haase, Cooperative Development Specialist, Rural Business-Cooperative Service, 625 SE Salmon Avenue, Suite 5, Redmond, Oregon 97756, within 60 days from the date of this Letter of Agreement. The Borrower must comply with the conditions set forth in this Letter of Agreement within 120 days from the date of its acceptance. If the Borrower has not complied with these stipulations, the Loan commitment may be rescinded.

Should your organization decide not to accept this Loan, please return the unexecuted documents along with a board resolution requesting that your Loan application be canceled.

Sincerely,



BUD FISCHER
Director, Business-Cooperative Services

Accepted and Agreed to:

Central Electric Cooperative, Inc.

by: _____
President Date

Attested to for the Borrower:

by: _____
Secretary

Enclosures: Duplicate Original Letter of Agreement
Rural Development Loan Agreement
Promissory Note
Form of legal opinion
Supplemental Financing format
Certification regarding debarment, suspension, ineligibility
and voluntary exclusion - lower tier covered transactions
Certification of Authority
Exhibit A - Management Representation Letter by RBS Borrower
Exhibit B - Management Representation Letter by Loan Recipient
7 CFR Part 1703
Annual Project Performance Report
Handout, "Guide For Construction Sign"
Form of Letter of Credit
ACH Enrollment Form

cc: Robert K. Haase, Cooperative Development Specialist, Redmond, OR

RECEIVED MAY 18 1999

USDA

United States
Department of
Agriculture

Rural
Business-Cooperative
Service

101 SW Main, Suite 1410
Portland, OR 97204-3222
PHONE (503) 414-3366
FAX (503) 414-3398
Office Hours 8:00 am - 4:30 pm

May 13, 1999

Al Gonzales
Central Electric Cooperative, Inc.
PO Box 846
Redmond, OR 97756

RECEIVED

MAY 17 1999

C. E. C.

RE: Rural Economic Development Loan Application
Loan Amount: \$300,000
Ultimate Recipient: City of Prineville

Dear Mr. Gonzales:

AMENDMENT NO. 1
TO RBS's "Letter Of Agreement (Rural Economic Development Loan)"
Dated February 2, 1999

Rural Business-Cooperative Service (RBS) hereby amends its "LETTER OF AGREEMENT (Rural Economic Development Loan)" dated February 2, 1999 by replacing the following condition which must be understood and agreed to by you as a condition of RBS approval:

Condition No. 2:

"RBS shall be under no obligation to advance the Loan funds unless and until the Borrower has delivered to RBS evidence, satisfactory to RBS, that Prineville has obtained or received binding commitments for supplemental financing in the approximate amount of \$125,976 that is needed, in addition to the loan proceeds, to ensure completion of the project. A form for listing the sources of supplemental financing is enclosed. Please ensure that evidence of the availability of such financing is also provided."

All other purposes, terms and conditions of the loan and RBS's February 2, 1999 "LETTER OF AGREEMENT (Rural Economic Development Loan)" remain unchanged.

A copy of the recommended format to be used by the City of Prineville, on its own letterhead, to indicate commitment of funds is enclosed herewith.

RBS hereby reminds you that any unspent loan funds remaining as of the second anniversary of the date of the advance of funds by Central Electric Cooperative, Inc., to the City must be returned to RBS as required by Section 2(f), "Affirmative Covenants", of the Rural Development Loan Agreement.

Amendment "B"
EXHIBIT "B"

If the conditions in the February 2, 1999 Letter Of Agreement and this Amendment No. 1 thereto are acceptable to you, Central Electric Cooperative, Inc., must evidence its acceptance of the terms and conditions by executing and dating both the duplicate original Letter Of Agreement dated February 2, 1999 (currently in your possession) and the duplicate original Amendment No. 1 (enclosed herewith) in the spaces provided and returning both duplicate originals to Mr. Robert K. Haase, Cooperative Development Specialist, Rural Business-Cooperative Service, 625 SE Salmon Avenue, Suite 5, Redmond, Oregon 97756, by June 2, 1999.

If you have any questions concerning this Amendment No. 1 document, please contact Robert K. Haase at (541) 923-4358 Ext. 124.

Sincerely,



BUD FISCHER
Director, Business-Cooperative Services

Enclosures: Duplicate original Amendment No. 1 to Letter Of Agreement
Supplemental Financing format

cc: Robert K. Haase, Cooperative Development Specialist, Redmond, OR
cc: Henry Hartley, City Manager, Prineville, OR,

Acceptance

Central Electric Cooperative, Inc.

This Amendment No. 1 to the February 2, 1999 Letter Of Agreement is accepted and agreed to by Central Electric Cooperative, Inc.

By: _____
President Date

Attested to for the Borrower:

by: _____
Secretary

(Type on Ultimate Recipient's Corporate Letterhead)

SUPPLEMENTAL FINANCING:

Source of Funds:	Amount
1. _____	\$ _____
2. _____	\$ _____
3. _____	\$ _____
4. _____	\$ _____
5. _____	\$ _____
TOTAL	\$ _____

I certify that the funding listed above has been obtained or has been committed to the project described in the application materials submitted to the (insert name of RBS Utility and the Rural Business-Cooperative Service (RBS)).

Signature of Authorized Official
of Ultimate Recipient

Date

Title

(PLEASE NOTE: EVIDENCE OF AVAILABILITY OF FINANCING/BINDING COMMITMENTS MUST BE ATTACHED)

Date: February 2, 1999

Amount: \$300,000.00

RURAL DEVELOPMENT LOAN AGREEMENT

This Agreement dated as of the date first written above between Central Electric Cooperative, Inc., a corporation duly organized and existing under the laws of the State of Oregon (the "Borrower"), and the United States of America (the "Government") sets forth the terms and understandings between the Borrower and the Government regarding a loan (the "Loan") the Government is making to the Borrower pursuant to §313 of the Rural Electrification Act of 1936, as amended (the "Act") and 7 CFR Part 1703, Subpart B -- Rural Economic Development Loan and Grant Program (the "Regulations").

The Borrower has filed an application and supporting material (collectively, the "Application Materials") with the Government pursuant to 7 CFR §1703.34 requesting the Loan for promoting rural economic development.

The Government wishes to make the Loan to the Borrower from the Rural Economic Development Subaccount within the Rural Electrification and Telephone Revolving Fund pursuant to §313 of the Act to finance Approved Purposes for the rural development project (the "Project") more particularly described in the Letter of Agreement (the "Letter of Agreement") between the Government and the Borrower dated February 2, 1999.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the Government and the Borrower agree as follows:

1. Loan Terms

a. The Government shall lend Three Hundred Thousand Dollars (\$300,000.00) to the Borrower and the Borrower shall lend the proceeds of the Loan to The City of Prineville (the "Ultimate Recipient") to be used solely to promote rural economic development as more particularly described in the Application Materials as those materials may have been modified by the Letter of Agreement.

b. The Government shall advance the proceeds of the Loan to the Borrower in one disbursement at the time and in the manner specified in the Letter of Agreement.

c. The Borrower shall repay the Loan in accordance with the note to be executed by the Borrower and made payable to the United States of America. The Borrower shall begin to repay the Loan on the date set forth in the note and shall continue paying without interruption until all indebtedness associated with the Loan has been repaid in full on or before the final maturity date of the note.

d. The Loan will not bear interest although indebtedness not paid when due will be subjected to late charges, costs, and other charges as provided in the note described below.

e. If the Borrower fails to satisfy all conditions, requirements, and terms prerequisite to the advance of the proceeds of the Loan from the Government to the Borrower as set forth in the Letter of Agreement and this Agreement within 120 days of the Borrower's acceptance of the terms and conditions of the Letter of Agreement, or such later date as the Government may approve in writing in furtherance of the purposes of the Act, the Loan commitment shall be considered rescinded.

2. Affirmative Covenants

a. The Borrower shall execute and deliver its promissory note (the "Note") to the Government in the form attached hereto in order to evidence its obligation to repay the Loan by the terms of this Agreement, the Letter of Agreement, and the Note. The Borrower shall pay all indebtedness evidenced by the Note in the manner and at the times described therein.

b. The Borrower shall promptly use the proceeds of the Loan only in the manner and exclusively for the purposes set forth in the Application Materials as previously approved by the Government and in accordance with the Letter of Agreement, this Agreement, and the Regulations (as they may be amended from time to time). No changes may be made in the foregoing without the prior written approval of the Government. Until disbursed by the Borrower for authorized Loan purposes, the Borrower shall deposit the Loan proceeds in a separate bank account which is fully insured by the Federal Deposit Insurance Corporation.

c. The Borrower shall return to the Government as a prepayment on the Note all proceeds of the Loan which have not been re-lent or disbursed by the Borrower for authorized Loan purposes during the six months following the advance of the proceeds of the Loan from the Government to the Borrower, or such later date as the Government may approve in writing in furtherance of the purposes of the Act. The Borrower shall also return to the Government all interest earned on the undisbursed Loan proceeds.

If the Project is under the control of the Borrower, the Borrower shall return to the Government as a prepayment on the Note all proceeds of the Loan which have not been expended by the Borrower for authorized Loan purposes before the first anniversary of the date of the advance of the proceeds of the Loan from the Government to the Borrower, or such later date as the Government may approve in writing in furtherance of the purposes of the Act. The Borrower shall also return to the Government all interest earned on the undisbursed Loan proceeds.

d. The Borrower shall make all payments on the Note by using an automated clearing house (ACH) system or, if notified by the Government in writing to do so, any other reasonable method of payment specified by the Government. Specific instructions for using ACH will be provided by the Government prior to the first scheduled payment.

e. If the Application Materials described a Project that will be funded, developed, owned, leased, managed or operated by other participants, the Borrower shall use its best efforts to cause such participants to abide by their commitments to the Project and to the completion of the transactions contemplated in the Application Materials, this Agreement, and the Letter of Agreement.

f. The Borrower shall maintain a certified list of expenditures and attachments as described in this section at its premises for review by Government representatives, auditors or others conducting a review or audit of the Borrower and the expenditure of the proceeds of the Loan. The Borrower shall also submit a duplicate certified list of expenditures and attachments as described in this section to the Government for its files.

The Borrower shall (i) require the Ultimate Recipient to provide an itemized list to the Borrower that shows the expenditures made on the Project for Approved Purposes using the proceeds of the Loan and include a certification on this list to the effect "I certify that the proceeds of the rural economic development loan from Central Electric Cooperative, Inc. were expended on approved purposes as shown on this list and the attached invoices, receipts, bills of sale, and other evidence represent items shown on this list" and (ii) require the Ultimate Recipient to attach the invoices, receipts, bills of sale, and other evidence representing the items shown on the list to the certification. The Borrower shall require in its agreement with the Ultimate Recipient that the invoices, receipts, bills of sale, and other evidence must at least total the amount of funds that have been provided to the Ultimate Recipient using the proceeds of the Loan; the certified list must be provided upon completion of the Project or by the first anniversary of the date of the advance of funds to the Ultimate Recipient, whichever occurs first; if all funds have not been expended by the first anniversary, the Ultimate Recipient must provide to the Borrower a certified list of current expenditures and a statement of its intended expenditure schedule; and, upon completion of the Project, the Ultimate Recipient must provide to the Borrower a final certified list of the expenditures including the attachments.

The Borrower shall require the Ultimate Recipient to expend the Borrower's loan funds which were provided from the proceeds of the Loan by the second anniversary of the date of the advance of funds to the Ultimate Recipient, or by such later date as the Government may approve in writing in furtherance of the purposes of the Act. The Borrower shall require the Ultimate Recipient to return to the Borrower all funds it provided to the Ultimate Recipient from the proceeds of the Loan that have not been expended by the second anniversary of the date of the advance of funds to the Ultimate Recipient, or by such later date as the Government has approved. The Borrower shall return as a prepayment on the Note all unexpended funds that the Ultimate Recipient returns to the Borrower under the terms of the Borrower's agreement.

g. The Borrower shall permit Government officials to inspect and copy its records about the Project during regular business hours. If the Project is under the control of the Borrower, representatives of the Government may inspect the Project itself during regular business hours. If the Project is developed, owned, leased, managed or operated by others, the Borrower shall use its best efforts to obtain from third parties such permission as may be necessary to permit Government representatives to inspect the Project and related records from time to time during regular business hours.

h. Unless otherwise approved in writing by the Government, the Borrower shall promptly remit to the Government any principal payments made by the Ultimate Recipient on its note to the Borrower in excess of the Ultimate Recipient's regularly scheduled payment, including any lump sum amount the Borrower receives as partial or full prepayment of principal.

i. The Borrower shall diligently monitor performance of the Ultimate Recipient to ensure that objectives as proposed in the Application Materials are being achieved. Beginning one year from the date of advance of loan proceeds to the Ultimate Recipient and concluding three years from the date of advance or upon completion of the Project as proposed in the Application Materials, whichever date occurs later, the Borrower shall submit a project performance report to the Government on an annual basis. The project performance report shall describe (1) the actual accomplishments of the Project, setting forth the number and types of jobs created and retained; (2) the impact of the Project on the economy and quality of life of the rural community; (3) reasons why any projections or objectives as proposed in the Application Materials were not met, and (4) any problems, delays, or adverse conditions which have occurred, or are anticipated, which may affect the attainment of overall objectives of the Project. This disclosure shall be accompanied by a statement of the action taken or planned to resolve the delays, problems or adverse conditions. Upon completion of the Project or three years from the date of advance, whichever occurs later, the Borrower shall provide a final written performance report, accompanied by color photographs, including negatives or slides, documenting the overall accomplishments of the Project.

j. The Borrower shall immediately notify the Government in writing of any occurrence by the Ultimate Recipient which results in the discontinuance of payment by the Ultimate Recipient on its note to the Borrower, the closure of operations of the Ultimate Recipient, the transfer of operations by the Ultimate Recipient from the original project site described in the Application Materials, or the institution of bankruptcy proceedings involving the Ultimate Recipient.

k. The Borrower shall comply with the Regulations, as they may be amended from time to time, including, without limitation, any federal regulations or federal statutes which the Regulations identify as being applicable to activities contemplated by the Application Materials or this Agreement.

l. So long as the Borrower remains obligated to the Government under the terms of any financial assistance previously or subsequently extended under the Act, the Borrower shall fully perform all obligations to the Government which the Borrower has undertaken concerning such assistance.

m. The Borrower will not condition the receipt of a loan made from the proceeds of the Loan with the requirement that the Ultimate Recipient take electric or telecommunications service from the Borrower or any other specific utility.

n. RBS shall be under no obligation to advance the Loan Funds unless and until the Borrower furnishes to RBS, in form and substance satisfactory to RBS, an irrevocable letter of credit in the amount of \$300,000 to ensure repayment of the Loan to the Government. The letter of credit shall be payable to RBS and issued on behalf of the Borrower.

3. Negative Covenant

The Borrower shall not enter into or request the Government to approve any agreements which would permit third parties to fund, develop, manage, own, lease or operate the Project in a manner that would violate the Regulations, this Agreement, or the Letter of Agreement if the Borrower were to undertake such activity in its own name.

4. Representations and Warranties

The Borrower represents and warrants that on and as of the date first set forth above:

a. The Borrower has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Oregon with the corporate power and authority to perform its obligations under this Agreement, the Letter of Agreement, the Note, and the Regulations.

b. This Agreement, the Letter of Agreement and the Note have been duly authorized, executed and delivered by the Borrower and such documents constitute the legal and binding agreements of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject to (i) applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general application relating to or affecting creditors' rights generally and (ii) the application of general principles of equity regardless of whether such enforceability is considered in a proceeding in equity or at law.

9

c. The execution or the delivery by the Borrower of this Agreement, the Letter of Agreement, and the Note; the consummation of the transactions contemplated herein or therein; and the fulfillment by the Borrower of the terms hereof or thereof, do not conflict with or violate, result in a breach of or constitute a default under any term or provision of the articles of incorporation or by-laws of the Borrower or any law or regulation or any order now applicable to the Borrower of any court, regulatory body having jurisdiction over the Borrower, or the terms of any indenture, deed of trust, mortgage, note, note agreement or instrument to which the Borrower or any of its properties is bound. The Borrower has not received any notice from any other party to any of the foregoing that a default has occurred or that any event or condition exists that with the giving of notice or lapse of time or both would constitute such a default.

d. No approval, authorization, consent, order, registration, filing, qualification, license or permit of or with any state or Federal court or governmental agency or body having jurisdiction over the Borrower is required by the Borrower for the consummation by the Borrower of the transactions contemplated by this Agreement, the Letter of Agreement, and the Note except such as have been obtained.

e. There is no pending or threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator concerning the Borrower, this Agreement, the Letter of Agreement, or the Note which, if adversely determined, would have a material adverse effect on the Borrower's ability to perform its obligations under this Agreement, the Letter of Agreement, or the Note.

f. All information, reports and other papers and data furnished to the Government by the Borrower concerning the application of the Borrower for the Loan were, at the time the same were so furnished, complete and correct in all material respects to the extent necessary to give the Government a true and accurate knowledge of the subject matter and no document furnished or other written statement made to the Government in connection with the Loan contains any untrue statement of a fact material to the financial condition of the Borrower or the Project or omits to state such a material fact necessary in order to make the statements contained therein not misleading.

g. The Borrower has reviewed the Regulations and understands and accepts the requirements which the Regulations impose upon it.

h. The Borrower does not expect or intend the Project to result primarily in the transfer of any existing employment or business activity from one area to another.

5. Default

a. Upon the occurrence of an event of default as defined in this Agreement, the holder of the Note may declare all or any portion of the indebtedness arising under this Agreement, including indebtedness evidenced by the Note, to be immediately due and payable and may proceed to enforce its rights under this Agreement, the Letter of Agreement, and the Note.

b. As used in this Agreement, the term "event of default" shall mean the occurrence of any of the following:

1) any principal installment is not paid within thirty (30) days of the date which it is required to be made, whether by acceleration or not;

2) failure, inability or unwillingness of the Borrower to carry out or comply with, or cause to be carried out or complied with, the specific undertakings described in the Application Materials as approved by the Government in the Letter of Agreement;

3) any representation or warranty made by the Borrower herein, in the Application Materials, in the Letter of Agreement or in any certificate or report furnished by or on behalf of the Borrower about any of the foregoing shall prove to be false, incomplete or incorrect in any material respect;

4) default shall be made in the due observance or performance of any of the covenants, conditions or agreements of the Borrower, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Borrower by the holder of the Note;

5) an event of default shall have occurred and be continuing under any mortgage of the Borrower which secures any form of financial assistance heretofore or hereafter furnished to the Borrower by the Government;

6) commencement of a case in bankruptcy by or against the Borrower;

7) application for appointment of a receiver for, making a general assignment for the benefit of creditors by, or insolvency of the Borrower; or

8) violation of the Regulations in any material respect, by officers, directors, employees or agents of the Borrower, and such violation shall continue for a period of thirty (30) days without being rectified to the satisfaction of the Government after written notice specifying such default and requiring the same to be rectified has been given by the Government to the Borrower.

6. Miscellaneous

a. Every right or remedy herein conferred upon or reserved to the holder of the Note shall be cumulative and shall be in addition to every other right and remedy now or hereafter existing at law or in equity, or by statute or regulation.

b. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of this Agreement shall not affect the remaining portions hereof.

c. In the event that the Government shall sell the Note to an insured purchaser as provided in the Act, the Government, and not the insured purchaser, shall be considered to be, and shall have the rights of, the holder of the Note for purposes of this Agreement.

d. This Loan Agreement is entered into between the parties concerning a zero interest loan which the Government is making to the Borrower pursuant to §313 of the Rural Electrification Act of 1936, as amended, to promote rural economic development and job creation projects. Accordingly, so long as the Government shall, under the terms of this Agreement, be the holder of the Note, this Agreement, the Letter of Agreement and the Note shall each be governed by and construed in accordance with the laws of the United States and the regulations that govern §313 of the Rural Electrification Act of 1936, as amended.

IN WITNESS WHEREOF, Central Electric Cooperative, Inc., as Borrower, has caused this Loan Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its duly authorized officers thereunto, and the United States of America has caused this Loan Agreement to be duly executed in its behalf, all as of the day and year first written above.

Central Electric Cooperative, Inc.

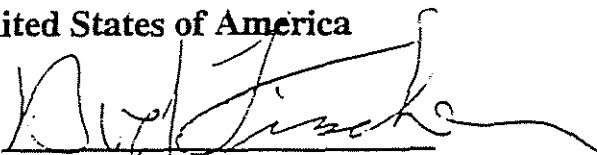
by: _____
Al Gonzales
President

(SEAL)

Attest: _____

Secretary

United States of America

by: 
Bud Fischer
Director, Business-Cooperative Services

PROMISSORY NOTE

\$300,000.00

_____, 1999

For value received, the City of Prineville, an Oregon municipal corporation, promises to pay to the order of Central Electric Cooperative, Inc. (CEC), at the times and in the manner hereinafter provided, the sum of Three Hundred Thousand Dollars (\$300,000.00), without interest, in monthly installments of Three Thousand One Hundred Twenty Five Dollars (\$3,125.00) on the last day of the month beginning two years after the date first written above and continuing on the last day of each month of each year thereafter until the principal sum stated above has been paid in full on or before the final maturity date of this note which shall be on the tenth anniversary of the date first written above. Maker shall make the right to prepay the obligation set forth in this note in whole or in part at any time without penalty; provided, however, that in the event of a partial prepayment, the maker shall be obligated to continue making regular and uninterrupted monthly payments for the amount and on the monthly payment date specified in this note so long as any portion of the loan remains unpaid.

Demand, presentment, protest, notice of protest, and notice of dishonor are hereby waived.

In the even of nonpayment when due of any payment due under this note or if an event of default occurs under the Rural Development Loan Agreement described below, and such nonpayment or event of default continues for a period of thirty (30) days, then at the option of the holder of this note, all of the amount then owing under this note shall immediately become due and payable. The failure to assert this right shall not be deemed a waiver.

So long as this note shall be held by CEC, the maker shall pay a late charge on any payment not made within ten (10) days of the date it becomes due as originally scheduled or otherwise. The late charge shall be computed on the payment from the due date at a rate equal to the rate of the current value of funds to the United States Treasury as prescribed and published by the Secretary of the Treasury in the Federal Register and the Treasury Fiscal Requirements Manual Bulletins annually or quarterly, as the case may be, in accordance with 31 U.S.C. §3713. In addition, maker shall pay administrative costs and penalty charges as CEC may now or hereafter prescribed pursuant to 4 CFR §102.13(d) and (e), respectively. If this note is transferred by CEC, whether for collection or otherwise, any payment not paid within ten (10) days of the date it becomes due, as originally scheduled or otherwise, shall thereafter be subject to a late charge computed from the due date at a rate equal to the judgment rate prescribed by the state in which the borrower has its principal place of business. In such event the maker shall also pay the transferee for all reasonable costs and expenses of collection.

Amounts received on account of indebtedness evidenced by this note shall be applied as follows: first to expenses, costs and penalties; second to late charges; third to principal payments which are past due; and fourth to principal installments not yet due.

This note is given in accordance with, and is required by, the terms and conditions of a certain Rural Development Loan Agreement between CEC and United States of America dated as of _____ and evidences indebtedness created by a loan made for the purpose of promoting rural economic development and job creation projects. Accordingly, so long as this note is held by CEC it shall be governed by and construed in accordance with the laws of the United States and the regulations that govern §313 of the Rural Electrification Act of 1936, as amended.

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

CITY OF PRINEVILLE

By: City Manager

(SEAL)

Attest: _____
Secretary

CEC/PROMNOTE.PRI
Redrafted: 6/21/99

U.S. DEPARTMENT OF AGRICULTURE

**Certification Regarding Debarment, Suspension, Ineligibility
and Voluntary Exclusion - Lower Tier Covered Transactions**

This certification is required by the regulations implementing Executive Order 12549, Debarment and Suspension, 7 CFR Part 3017, Section 3017.510, Participants' responsibilities. The regulations were published as Part IV of the January 30, 1989, Federal Register (pages 4722-4733). Copies of the regulations may be obtained by contacting the Department of Agriculture agency with which this transaction originated.

(BEFORE COMPLETING CERTIFICATION, READ INSTRUCTIONS ON REVERSE)

- (1) The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.

- (2) Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

Organization Name

PR/Award Number or Project Name

Name(s) and Title(s) of Authorized Representative(s)

Signature(s)

Date

Instructions for Certification

1. By signing and submitting this form, the prospective lower tier participant is providing the certification set out on the reverse side in accordance with these instructions.
2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.
3. The prospective lower tier participant shall provide immediate written notice to the person to which this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.
4. The terms "covered transaction," "debarred," "suspended," "ineligible," "lower tier covered transaction," "participant," "person," "primary covered transaction," "principal," "proposal," and "voluntarily excluded," as used in this clause, have the meanings set out in the Definitions and Coverage sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of those regulations.
5. The prospective lower tier participant agrees by submitting this form that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.
6. The prospective lower tier participant further agrees by submitting this form that it will include this clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions," without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.
7. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Nonprocurement List.
8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.
9. Except for transactions authorized under paragraph 5 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

(Note: Type on corporate letterhead)

**MANAGEMENT REPRESENTATION LETTER
BY RBS BORROWER**

- a. Loan or grant funds were not used to assist projects of which any director, officer, general manager, or significant stockholder of the *(insert RBS Borrower name)*, or close relative thereof, is an owner, or which would create a conflict of interest or the appearance of a conflict or interest. The *(insert RBS Borrower name)*, has disclosed to the Rural Business-Cooperative Service (RBS) information regarding any conflict of interest, potential conflict of interest or any appearance of a conflict of interest.
- b. The *(insert RBS Borrower name)*, has not made a profit from the zero-interest loan or grant [with the exception of the \$500 interest income exclusion addressed in 7 CFR Section 1703.21(d)].
- c. The *(insert RBS Borrower name)*, did not condition the receipt of the proceeds for the RBS zero-interest loan or grant with the requirement that *(insert Recipient's name)*; take electric or telephone service from the *(insert RBS Borrower name)*.

(Name and Signature of Authorized Official
of RBS Borrower)

Date

Exhibit A to Letter of Agreement

EXHIBIT "F"

(Now: Type on corporate letterhead)

**MANAGEMENT REPRESENTATION LETTER
BY LOAN RECIPIENT**

- a. Loan funds were not used to assist projects of which any director, officer, general manager, or significant stockholder of the (insert RBS Borrower Utility name), or close relative thereof, is an owner, or which would create a conflict of interest or the appearance of a conflict or interest.
- b. Loan funds were not expended for site development, the destruction or alteration of buildings, or other activities that would adversely affect the environment or limit the choice of reasonable alternatives prior to satisfying the requirements of 7 CFR Section 1703.32, Environmental Requirements.
- c. Loan funds were not expended to purchase or lease any real property, materials, equipment, or services from the (insert RBS Borrower Utility name), its subsidiary, an affiliate of the (insert RBS Borrower Utility name), or significant stockholders, officers, managers or directors of the (insert RBS Borrower Utility name), or close relatives thereof, where the purchase or lease has not been fully disclosed to the Rural Business-Cooperative Service (RBS) and received RBS's prior written approval.
- d. Loan funds were not expended to pay off existing indebtedness incurred prior to receipt of (insert RBS Borrower Utility name) completed application by RBS or for refinancing or repaying a loan made under the Rural Electrification Act of 1936, as amended, or a program administered by the Rural Utilities Service.
- e. Loan funds were not expended for any electric or telephone purpose, as determined by RBS.
- f. Loan funds were not expended for any community antenna television systems or facilities except as provided in 7 CFR part 1703, Section 1703.17(d).
- g. Loan funds were not expended for projects located in areas covered by the Coastal Barrier Resources Act (16 U.S.C. 3501 *et seq.*).
- h. The project did not result primarily in the transfer of any existing employment or business activity or business activity from one area to another.
- i. Loan funds were not expended for anything other than an Approved Purpose.

(Name and Signature of Authorized Official
of Loan Recipient)

Date

Exhibit B to Letter of Agreement

EXHIBIT "C"

FORM OF LETTER OF CREDIT ON LENDER'S LETTERHEAD

Date: _____

Administrator
Rural Business-Cooperative Service
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, D.C. 20250

Re: Irrevocable Letter of Credit
No. _____

Dear Sir:

We hereby authorize the Rural Business-Cooperative Service and any successor thereto (hereinafter Rural Business-Cooperative Service and any successor thereto are collectively referred to as "RBS") to draw upon [insert Name and address of Financial Institution providing the Letter of Credit] (hereinafter called "Lender") for the account of [insert name of Electric Utility] in favor of RBS for a sum including, but not limited to, any principal, interest, expenses, charges, costs and penalties due on the Promissory Note dated _____ ("Promissory Note") covering a zero-interest loan made in accordance with Section 313 of the Rural Electrification Act of 1936, as amended, in the principal amount of \$ _____, executed by [Electric Utility] and payable to the order of the United States of America, acting through RBS, however such sum shall not exceed _____ thousand dollars (\$ _____) available by drafts at sight on [Lender] bearing this letter of credit number and accompanied by the following documents sent to [Lender]:

1. This irrevocable Letter of Credit.
2. An affidavit executed and sworn by a duly authorized official of RBS (a) that payment is due and payable by [Electric Utility] pursuant to the terms of [Electric Utility's] rural economic development loan with the United States of America, administered by RBS, (b) that [Electric Utility] has not made such payment, (c) that RBS has made written demand upon [Electric Utility] for payment, and (d) that payment pursuant thereto has not been received within five days of receipt of said demand.
3. A copy of the written demand in 2(c) above.

This letter of credit shall be irrevocable and shall remain in full force and effect until the Promissory Note is paid in full. We hereby agree with you that drafts drawn under and in compliance with the terms of this letter of credit will be duly honored on due presentation to us. Payment of any draft drawn under this letter of credit in an amount less than the maximum amount available hereunder shall be recorded by us on the reverse side hereof and this letter of credit shall then be returned to you. This letter of credit is to be governed by the Uniform Commercial Code of the State of Oregon.

Very truly yours,

(Signature of Authorized Official of Lender)
[Printed Name of Authorized Official of Lender below signature]
[Title of Authorized Official of Lender]
[Name of Lender]

EXHIBIT "H"

CFC FORM

LETTER OF CREDIT APPLICATION AND AGREEMENT

Name and Address of Applicant:

Name and Address of Beneficiary:

Letter of Credit Amount:

Letter of Credit Expiration Date:

Date of this Application and Agreement:

CFC Loan No. Designation:

A. Applicant hereby requests National Rural Utilities Cooperative Finance Corporation ("CFC") to issue an irrevocable letter of credit in favor of the Beneficiary named above under the terms and conditions stated herein (the "Letter of Credit").

B. In consideration of the issuance by CFC of the Letter of Credit, Applicant hereby agrees with CFC to the following terms and conditions which, together with the terms stated above, constitute a valid and binding agreement between Applicant and CFC.

Draws. On any day that CFC is open for business, CFC hereby agrees to advance funds under the Letter of Credit to the Beneficiary in such amounts as the Beneficiary may from time to time request (each such advance is referred to herein as a "Draw"), provided that: (a) on the date of each such request, the outstanding unpaid balance of all Draws shall not exceed the Letter of Credit Amount stated above; (b) each Draw request is accompanied by the documentation specified in the Letter of Credit, the authenticity, form and substance of which shall be satisfactory to CFC; and (c) no Draw request will be honored after CFC's close of business on the Letter of Credit Expiration Date set forth above.

1. Documents. CFC's obligation to issue the Letter of Credit is conditioned upon CFC's receipt of the following documents, in form and substance satisfactory to CFC: (a) an executed copy of this Agreement; (b) certified copies of all such corporate documents and proceedings of the Applicant as CFC may require authorizing the transactions hereby contemplated; (c) an opinion of counsel for the Applicant addressing such legal matters as CFC shall reasonably require; and (d) true and correct copies of all certificates, authorizations and consents of any regulatory authority necessary for the execution, delivery or performance by the Applicant of this Agreement.

2. Irrevocable Instruction. Applicant hereby irrevocably instructs CFC to honor drafts presented in accordance with the terms hereof and contained in the Letter of Credit. It is expressly agreed that CFC may honor such drafts without requiring any documentation or information other than expressly stated in the Letter of Credit, and without regard to any contrary instructions Applicant may hereafter give to CFC.

3. Legal Representatives. Applicant agrees that CFC shall have no liability to the Applicant or to any other person for honoring drafts presented in accordance with the terms hereof and contained in the Letter of Credit which may be presented by the administrator, trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other legal representative of the Beneficiary.

4. No Liability. CFC shall have no liability for, and the Applicant's repayment and other obligations hereunder shall not be affected by (a) the use which may be made of the funds drawn under the Letter of Credit or for the acts or omissions of the Beneficiary or any other person, (b) the validity, accuracy, sufficiency or genuineness of drafts, required statements or documents, even if such drafts, statements or documents should in fact prove to be in any or all respects invalid, inaccurate, insufficient, fraudulent or forged, (c) errors, omissions, interruptions or delays in transmission or delivery of any message by mail, telephone, facsimile or otherwise, or (d) any consequences arising from causes beyond CFC's control.

5. Letter of Credit Fee. As consideration for issuance of the Letter of Credit, Applicant shall pay to CFC a fee equal to 33 basis points (33/100 of 1%) of the face amount of the Letter of Credit. In the event the Letter of Credit is outstanding for more than one year, then such fee shall be due and payable annually.

6. Repayment. One year from the date of each Draw under the Letter of Credit, Applicant hereby promises to pay, in lawful money of the United States, without setoff, deduction, recoupment or counterclaim, to the order of NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION, at its office in Herndon, Virginia or such other offices as CFC may designate, the principal sum of the aggregate unpaid principal amount of such Draw, and to pay interest as hereinafter provided on all amounts remaining unpaid hereunder from the date of such Draw in like money at said office. Interest shall be due and payable in accordance with CFC's regular billing cycles as may be in effect from time to time. CFC shall send a payment notice to the Borrower at least five days prior to the due date of any interest payment.

7. Interest. The interest rate on all Draws will be equal to the total rate per annum as may be fixed by CFC from time to time, which shall not exceed the Prime Rate (as defined herein), plus one percent per annum. Interest will be computed on the basis of a 365 day year for the actual number of days that any Draw is outstanding. The effective date of an interest rate adjustment

will be determined from time to time by CFC, provided that no such adjustment may be effective on a date other than the first or sixteenth day of any month, and any such adjustment shall remain in effect until any subsequent change in the interest rate occurs.

8. Prime Rate. The "Prime Rate" is that bank prime rate published in the "Money Rates" column of any edition of The Wall Street Journal which CFC determines in its sole and absolute discretion to be the representative bank prime rate on the day preceding the day on which an adjustment in the interest rate shall become effective. If such preceding day is not a publication day for The Wall Street Journal, then the prevailing bank prime rate shall be established by reference to such "Money Rates" column as of the last publication day next preceding the day on which such adjustment shall become effective; *provided that* if The Wall Street Journal shall cease to be published, then the prevailing bank prime rate shall be determined by CFC by reference to another publication reporting bank prime rates in the same manner.

9. Prepayment. Applicant may, at any time, make prepayments of the principal amount of any Draw, together with any interest accrued thereon.

10. Default; Remedies. Applicant shall be in default if it fails to make any payment of principal or interest, or fails to pay any other sum due hereunder, in full, when due. Upon default, Applicant agrees that all amounts outstanding under this Agreement shall become immediately due and payable in full with accrued interest, and that CFC may, in addition thereto, exercise any other remedies available to it under applicable law. Applicant hereby expressly waives demand, presentment for payment, notice of dishonor, protest, notice of protest, and notice of non-payment, and all other notices that may be applicable to acceleration of payment under and enforcement of this Agreement.

11. Required Notices. Applicant agrees that, so long as any amount due is outstanding under this Agreement, Applicant shall promptly notify CFC (a) of any delinquency or default on any of its debt, including but not limited to money borrowed, debt evidenced by securities issued, or any indebtedness directly or indirectly guaranteed by Applicant, or (b) if there is a material adverse change in Applicant's financial condition. Applicant further agrees that if CFC shall determine, in its sole and absolute discretion, that such delinquency or default, or such inaccurate financial information materially increases CFC's risk of repayment hereunder, CFC may exercise all remedies available to it under applicable law, including but not limited to acceleration of all amounts due hereunder.

12. Right of Setoff. If Applicant fails to pay any amount hereunder when due, then CFC is hereby authorized at any time and from time to time, without prior notice to the Applicant, to exercise rights of setoff or recoupment and apply any and all amounts held, or hereafter held, by CFC or owed to the Applicant or for the credit or account of the Applicant against any and all of the obligations of the Applicant hereunder. CFC agrees to notify the Applicant promptly after any such setoff or recoupment and the application thereof, provided that the failure to give such notice shall not affect the validity of such setoff, recoupment or application. The rights of CFC under this section are in addition to any other rights and remedies (including other rights of setoff or recoupment) which CFC may have. Applicant waives all rights of setoff, deduction, recoupment or counterclaim.

13. Financial Information. Applicant agrees that, so long as any amount due to CFC is outstanding under this Agreement, Applicant shall deliver to CFC a copy of Applicant's monthly

and quarterly financial statements, and a copy of Applicant's annual audit report. Monthly statements shall be furnished within ten (10) days after the end of the month and quarterly statements shall be furnished within fifteen (15) days after the end of the quarter. Applicant will also cause to be prepared and furnished to CFC a full and complete report of its financial condition and operations as of the end of the calendar year in form and substance satisfactory to CFC, audited 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. Such report shall be furnished within 120 days of the end of such calendar year. The foregoing requirements shall survive the making of Draws hereunder and the expiration of the Letter of Credit until all sums due under this Agreement have been paid in full.

14. Late Fee; Collection Costs. If payment of any principal and/or interest due under the terms of this Agreement is not received at CFC's offices in Herndon, Virginia, or such other place as CFC may designate, within 5 business days after the due date thereof, Applicant will pay to CFC, in addition to all other amounts due under the terms of this Agreement, a late payment charge as may then be in effect pursuant to CFC's policies of general application. Applicant further agrees to pay the costs of collection, including reasonable attorneys' fees, of any amount due under this Agreement.

15. GOVERNING LAW; SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

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

APPLICANT HEREBY SUBMITS TO THE NONEXCLUSIVE 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. APPLICANT IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE ESTABLISHING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

EACH OF THE APPLICANT AND CFC 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.

17. 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 Applicant at the address and telecopy number stated above, and to CFC at:

National Rural Utilities Cooperative Finance Corporation
2201 Cooperative Way
Herndon, Virginia 20171-3025
Fax: (703) 709-6776

Either party may designate another address by notice as provided herein. All communications shall be deemed to have been duly given when personally delivered or, in the case of a telecopied or mailed notice, upon receipt, in each case given or addressed as provided for herein.

18. Miscellaneous. No modification or waiver of any provision of this Agreement, and no consent to any departure by Applicant therefrom, shall in any event be effective unless the same shall be in writing by the party granting such modification, waiver or consent. This Agreement and any schedules or exhibits together contain the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby. If any term, provision or condition of this Agreement 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 shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

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

[NAME OF APPLICANT]

(SEAL)

By: _____

Title: _____

Attest: _____
Secretary

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

(SEAL)

By: _____
Assistant Secretary-Treasurer

Attest: _____
Assistant Secretary-Treasurer

CERTIFIED COPY OF MINUTES

I, _____, do hereby certify that I am the Secretary of _____
_____ ("Member").

The following is a true and correct copy of excerpts from the minutes of a meeting of the Board of Directors * Trustees * of the Member held _____, 19____, as they appear in the Minutes Book of the Member, said resolutions duly adopted thereat; the meeting was duly and regularly called in accordance with the bylaws of the Member; the Agreement for a letter of credit and the Note submitted herewith or to be submitted to CFC are or will be correct copies of these forms as presented to said meeting, the execution of which was authorized by the Board of Directors* Trustees*; and said resolutions have not been modified or rescinded:

"The Board of Directors * Trustees * of the Member having been advised by its Counsel that the Member is legally constituted, is in compliance with all applicable statutory, regulatory and other legal requirements and is in good standing, and that an application to be made to National Rural Utilities Cooperative Finance Corporation (CFC) for a letter of credit and its approval by CFC, together with the execution of a Note or Notes as authorized by the Board and delivered for value, in the form of the Agreement and the Note presented at this meeting, will constitute valid and binding obligations of the Member, enforceable by and against the Member, in accordance with the terms of these documents:

"RESOLVED, that the Member establish a letter of credit and authorize borrowing from the National Rural Utilities Cooperative Finance Corporation (CFC) in amounts which shall not at one time exceed in the aggregate \$ _____ for a term of not to exceed _____ months and at such interest rate or rates and terms as shall be prescribed in the Note or Notes executed by and on behalf of the Member and delivered to CFC, the proceeds of such loans to be used for the corporate purposes and consistently with the requirements of outstanding security documents of the Members; and,

"RESOLVED, that the _____ (Insert Title of Appropriate Official) of the Member be and is hereby authorized to execute, on behalf of the Member, an Agreement for a letter of credit substantially in the form of the Agreement presented to this meeting, a copy of which is attached hereto; to execute in the name of the Member, a Note or Notes within the aggregate amount authorized by the foregoing resolution, substantially in the form of the Note presented to this meeting, a copy of which is attached hereto; to revise and modify said Agreement and said Note within the amount so authorized; and to supply such further documents as may be needed to comply with CFC requirements; and

* Delete the inapplicable word

"RESOLVED, that the authorized officer of _____
("Beneficiary") is authorized on account of the Member to request and receive funds under such
letter of credit; and

"RESOLVED, that CFC is hereby authorized to review and to make copies of any
documents, reports, contracts or other material submitted by the Member to The Rural
Electrification Administration or any other governmental agency or body".

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Member,
this _____ day of _____, 19____.

Secretary

(CORPORATE SEAL)

FOR RUS BUY-OUT LETTER OF CREDIT DOCUMENTS

date (the date of the RUS final prepayment)

Mr. Dayton J. Watkins
Administrator
Rural Business and Cooperative
Development Service
U. S. Department of Agriculture
Washington, D. C. 20250

Re: Irrevocable Letter of Credit
??? Electric Cooperative
ID No.: ??-L- ??

Administrator:

Recognizing that the authority to administer the rural economic development program authorized under Section 313 of the Rural Electrification Act of 1936, as amended, ("RE Act ") was transferred from the Rural Utilities Service (" RUS "), successor to the Rural Electrification Administration (" REA "), to the Rural Business and Cooperative Development Service, and the Rural Business and Cooperative Development Service succeeds to all of the United States of America's rights, privileges, benefits and obligations under all documents executed by the United States of America, acting through REA, RUS, or Rural Business and Cooperative Development Service, pursuant to Section 313 of the RE Act, we hereby authorize Rural Business and Cooperative Development Service and any successor thereto (hereinafter Rural Business and Cooperative Development Service and any successor thereto are collectively referred to as " RBCDS ") to draw upon National Rural Utilities Cooperative Finance Corporation (" CFC "), Woodland Park, 2201 Cooperative Way, Herndon, Virginia 20171, for the account of **(FILL IN THE NAME) Electric Cooperative** in favor of RBCDS for a sum including, but not limited to, any principal, interest, expenses, charges, costs and penalties due on the Promissory Note (" Promissory Note ") dated **INSERT RUS NOTE DATE**, covering a zero-interest loan made in accordance with Section 313 of the Rural Electrification Act of 1936, as amended, in the principal amount of **\$ FILL IN ORIGINAL NOTE AMOUNT**, executed by **FILL IN THE NAME Electric Cooperative** and payable to the order of the United States of America, acting through RBCDS, however such sum shall not exceed in the aggregate amount of **\$???? (TWICE THE OUTSTANDING PRINCIPAL, OR \$40,000.00 WHICHEVER IS GREATER)**, amount available by drafts at sight on CFC bearing this letter of credit number and accompanied by the following documents sent to CFC:

EXHIBIT "J"

1. This irrevocable letter of credit.
2. An affidavit executed and sworn by a duly authorized official of RBCDS (a) that payment is due and payable by **?? Electric Cooperative** pursuant to the terms of **???Electric Cooperative's** rural economic development loan with the United States of America, administered by RBCDS, (b) that **?? Electric Cooperative** has not made such payment, (c) that RBCDS has made written demand upon **??? Electric Cooperative** for payment, and (d) that payment pursuant thereto has not been received within five days of receipt of said demand.
3. A copy of the written demand described in 2. (c) above.

This letter of credit shall be irrevocable and shall remain in full force and effect until the Promissory Note is paid in full. We hereby agree with you that drafts drawn under and in compliance with the terms of this letter of credit will be duly honored on due presentation to us. Payment of any draft drawn under this letter of credit in an amount less than the maximum amount available hereunder shall be recorded by us on the reverse side hereof and this letter of credit shall then be returned to you. This letter of credit is to be governed by the Uniform Commercial Code of the Commonwealth of Virginia.

Very truly yours,

NATIONAL RURAL UTILITIES
COOPERATIVE FINANCE CORPORATION

By: _____
Assistant Secretary-Treasurer

cc: Mr. ??? ,Manager Electric Cooperative

Fax RECEIVED MAY 13 1999
from D. Ertner



322 FAIRVIEW AVENUE NORTH SEATTLE, WASHINGTON 98109-5312 (206) 624-1300
 FACSIMILE (206) 624-7215

April 9, 1999

Doug Ertner
 Account Executive
 Central Electric Cooperative, Inc.
 P.O. Box 846
 Redmond, OR 97756

Subject: Gas Service to Prineville Industrial Park

Dear Mr. Ertner:

The project to provide gas service to the Prineville Industrial Park involves an approximate 16,700 foot gas main extension to be constructed and operated by Cascade Natural Gas Corporation and the acquisition and operation of the existing main located along Houston Lake Road. This project will allow Cascade to provide gas service to all lots of the Baldwin Industrial Park and all lots along the existing main near Houston Lake Road. It will provide approximately 40,000 cfh of gas capacity in the area. Following is a summary of the costs involved:

Project Costs:

Estimated Cost of Construction	\$352,384
Income Tax due on City of Prineville Contribution	\$60,134
Income Tax due on Value of Existing 4" to be Acquired by Cascade	\$9,301
Total Estimated Project Cost (to Cascade)	\$421,819
Total Amount Cascade will Contribute	\$125,976
Total Contribution Required by the City of Prineville	\$295,843

Contribution by the City of Prineville in the amount of \$295,843 will provide for completion of the project. Any cost over runs will be financed by Cascade.

Thank you for your cooperation in this matter.

Sincerely,
 CASCADE NATURAL GAS CORPORATION

Larry Anderson

Larry Anderson, P.E.
 Vice-President, Operations

CC: Jon Stoltz
 Dan Meredith
 Chanda Marek
 Tom Brazil
 Henry Hartley, City of Prineville

CENTRAL ELECTRIC COOPERATIVE, INC. LOAN AGREEMENT

DATED: _____, 1999

AMOUNT: \$300,000

This agreement dated as of the date first written above between the City of Prineville, a corporation duly organized and existing under the laws of the State of Oregon ("Prineville") and Central Electric Cooperative, Inc. (CEC) sets forth the terms and understandings between Prineville and CEC regarding a loan (the "Loan") to Prineville pursuant to §313 of the Rural Electrification Act of 1936, as amended (the "Act") and 7 FGR Part 1703, Subpart B - Rural Economic Development Loan and Grant Program (the "Regulations").

Prineville has filed an application and supporting material (collectively the "Application Materials") with RBS pursuant to 7 CFR §1703.34 requesting the Loan for promoting rural economic development.

CEC wishes to make the Loan to Prineville through RBS from the Rural Economic Development Subaccount within the Rural Electrification and Telephone Revolving Fund pursuant to §313 of the Act to finance Approved Purposes for the rural development project (the "Project") more particularly described in the Letter of Agreement (the "Letter of Agreement") between RBS and the Borrower dated February 2, 1999.

NOW, THEREFORE, in consideration of the mutual agreements herein contained, CEC and Prineville agree as follows:

1. LOAN TERMS

- a. CEC shall lend Three Hundred Thousand Dollars (\$300,000) to Prineville and Prineville shall use the proceeds of the Loan solely to promote rural economic development as more particularly described in the Application Materials.
- b. CEC shall advance the proceeds of the Loan to Prineville in one disbursement at the time and in the manner specified in the Letter of Agreement.
- c. Prineville shall repay the Loan in accordance with the note to be executed by Prineville and made payable to CEC. Prineville shall begin to repay the Loan on the date set forth in the note and shall continue paying without interruption until all indebtedness associated with the Loan has been repaid in full on or before the final maturity date of the note.
- d. The Loan will not bear interest although indebtedness not paid when due will be subjected to late charges, fees, costs and other charges as provided in the note described below.

2. AFFIRMATIVE COVENANTS

- a. Prineville shall execute and deliver its promissory note (the "Note") to CEC in the form attached hereto in order to evidence its obligation to repay the Loan according to the terms of this Agreement and the Note. Prineville shall pay all indebtedness evidenced by the Note in the manner and at the times described therein.
- b. Prineville shall promptly use the proceeds of the Loan only in the manner and exclusively for the purposes set forth in the Application Materials as previously approved by RBS and in accordance with the Letter of Agreement, this Agreement and the Regulations (as they may be amended from

time to time). Until disbursed by Prineville for authorized Loan purposes, Prineville shall deposit the Loan proceeds in a separate bank account, which is fully insured by the Federal Deposit Insurance Corporation.

- c. Prineville shall return to CEC as a prepayment on the Note all proceeds of the Loan, including any interest earned on the Loan proceeds being prepaid, which have not been expended by Prineville for authorized Loan purposes during the six months following the advance of the proceeds of the Loan from CEC to Prineville, or such later date as the Administrator of RBS at his discretion may approve in writing in furtherance of the purposes of the Act. Prineville shall return to CEC as a prepayment on the Note all proceeds of the Loan, including any interest earned on the proceeds of the Loan, which have not been expended by Prineville for authorized Loan purposes before the first anniversary of the date of the advance of the proceeds of the Loan from CEC to Prineville.
- d. Prineville shall make all payments on the Note through any CEC office by check.
- e. If the Application Materials described a Project that will be funded; developed, owned, leased, managed or operated by other participants, Prineville shall use its best efforts to cause such participants to abide by their commitments to the Project and to the completion of the transactions contemplated in the Application Materials, this Agreement and the Letter of Agreement.
- f. Prineville shall maintain a certified list of expenditures and attachments as described in this section at its premises for review by CEC representatives, auditors or others conducting a review or audit of Prineville and the expenditure of the proceeds of the Loan.

Prineville shall provide an itemized list to CEC that shows the expenditures made on the Project for Approved Purposes using the proceeds of the Loan and shall include a certification on this list to the effect "I certify that the proceeds of the rural economic development loan from Central Electric Cooperative, Inc. were expended on approved purposes as shown on this list and the attached invoices, receipts, bills of sale, and other documents represent items shown on this list" and Prineville shall attach the invoices, receipts, bills of sale documents and other such evidence representing the items shown on the list to the certification.

The invoices, receipts, bills of sale, documents and other such evidence must at least total the amount of funds that have been provided to Prineville using the proceeds of the Loan; the certified list must be provided upon completion of the Project or by the first anniversary of the date of the advance of funds to Prineville, whichever occurs first.

If all funds have not been expended by the first anniversary, Prineville must provide to CEC a certified list of the expenditures of current expenditures and a statement of its intended expenditure schedule.

Upon completion of the Project, Prineville must provide to CEC a final certified list of the expenditures including the attachments.

Prineville shall expend Prineville's loan funds, which were provided from the proceeds of the Loan by the second anniversary of the date of the advance of funds to Prineville. Prineville shall return to CEC all funds provided to Prineville from the proceeds of the Loan that have not been expended by the second anniversary of the date of the advance of funds to Prineville. Prineville shall return as a prepayment on the Note all unexpended funds.

- g. Prineville shall permit RBS and CEC officials to inspect and copy its records about the Project during regular business hours. Representatives of RBS and CEC may inspect the Project itself during regular business hours.
- h. Prineville shall provide to CEC an annual financial statement prepared by a Certified Public Accountant, including balance sheets and statement of profit and loss.
- i. Prineville shall provide to CEC evidence of adequate casualty and hazard insurance on all collateral being pledged including evidence of adequate flood insurance.
- j. Prineville shall pay expenses incurred by CEC in connection with this transaction, which shall include, but not be limited to loan fees, attorney fees and the like.
- k. Prineville shall comply with the Regulations, as they may be amended from time to time, including without limitation any federal regulations or federal statutes which the Regulations identify as being applicable to activities contemplated by the Application Materials or this Agreement
- l. So long as Prineville remains obligated to CEC under the terms of any financial assistance previously or subsequently extended under the Act, Prineville shall fully perform all obligations to CEC which Prineville has undertaken concerning such assistance.

3. NEGATIVE COVENANT

Prineville shall not enter into or request CEC to approve any agreements which would permit third parties to fund, develop, manage, own, lease, acquire an interest in or operate the Project in a manner that would violate the Regulations or this Agreement if Prineville were to undertake such activity in its own name.

4. REPRESENTATIONS AND WARRANTIES

Prineville represents and warrants that on and as of the date first set forth above:

- a. Prineville has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Oregon with the corporate power and authority to perform its obligations under this Agreement, the Note, related loan insurance and the Regulations.
- b. This Agreement and the Note have been duly authorized, executed and delivered by Prineville and such documents constitute the legal and binding agreements of Prineville, enforceable against Prineville in accordance with their respective terms, subject to (i) applicable bankruptcy, reorganization, insolvency, moratorium and other laws of general application relating to or affecting creditors' rights generally and (ii) the application of general principles of equity regardless of whether such enforceability considered in a proceeding in equity or at law.
- c. The execution or the delivery by Prineville of this Agreement and the Note; the consummation of the transactions contemplated herein or therein; and the fulfillment by Prineville of the terms hereof or thereof, do not conflict with or violate, result in a breach of or constitute a default under any term or provision of the Articles of Incorporation or By-Laws of Prineville or any law or regulation or any order now applicable to Prineville of any court, regulatory body having jurisdiction over Prineville, or the terms of any indenture, deed of trust, mortgage, note, note agreement or instrument to which Prineville or any of its properties is bound. Prineville has not received any notice from any other party to any of the foregoing that a default has occurred or that any event or condition exists that with the giving of notice or lapse of time or both would constitute such a default.

- d. No approval, authorization, consent, order registration, filing, qualification, license or permit of or with any state or federal court or governmental agency or body having jurisdiction over Prineville is required by Prineville for the consummation by Prineville of the transactions contemplated by this Agreement and the Note except such as have been obtained.
- e. There is no pending or threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator concerning Prineville, this Agreement, or the Note which, if adversely determined, would have a material adverse effect on Prineville's ability to perform its obligations under this Agreement or the Note.
- f. All information, reports and other papers and data furnished to CEC by Prineville concerning the pre-application and application of Prineville for the Loan were, at the time the same were so furnished, complete and correct in all material respects to the extent necessary to give CEC true and accurate knowledge of the subject matter and no document furnished or other written statement made to CEC in connection with the Loan contains any untrue statement of fact material to the financial condition of Prineville or the Project or omits to state such a material fact necessary in order to make the statements contained therein not misleading.
- g. Prineville has reviewed the Regulations and understands and accepts the requirements which the Regulations impose upon it.
- h. Prineville does not expect or intend the Project to result primarily in the transfer of any existing employment or business activity from one area to another.

5. DEFAULT

- a. Upon the occurrence of an event of default as defined in this Agreement, the Note, or and instruments related thereto, the holder of the Note may declare all or any portion of the indebtedness arising under this Agreement, including indebtedness evidenced by the Note, to be immediately due and payable and may proceed to enforce its rights under this Agreement, the Letter of Agreement, the Note and the related loan instruments.
- b. As used in this Agreement, the term "event of default" shall mean the occurrence of any of the following:
 - 1. if any principal installment is not paid within thirty (30) days of the date which it is required to be made, whether by acceleration or not;
 - 2. failure, inability or unwillingness of Prineville to carry out or comply with, or cause to be carried out or complied with, the specific undertakings described in the Application Materials as approved by RBS and the Letter of Agreement;
 - 3. if any representation or warranty made by Prineville in the Application Materials, in the Letter of Agreement or in any certificate or report furnished by or on behalf of Prineville about any of the foregoing shall prove to be false, incomplete or incorrect in any material respect;
 - 4. if default occurs in the due observance or performance or any of the covenants, conditions or agreements of Prineville, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to Prineville by the holder of the Note;
 - 5. if event of default shall have occurred and be continuing under any security agreement of Prineville which secures any form of financial assistance heretofore or hereafter furnished to Prineville by RBS or CEC;
 - 6. commencement of a case in bankruptcy by or against Prineville,

7. application for appointment of a receiver for, making a general assignment for the benefit of creditors by, or insolvency of Prineville; or
8. violation of the Regulations in any material respect, by officers, directors, employees or agents of Prineville, and such violation shall continue for a period of thirty (30) days without being rectified to the satisfaction of CEC after written notice specifying such default and requiring the same to be rectified has been given by CEC to Prineville.

6. MISCELLANEOUS

- a. Every right or remedy herein conferred upon or reserved to the holder of the Note and this Agreement shall be cumulative and shall be in addition to every other right and remedy now or hereafter existing at law or in equity, or by statute or regulation.
- b. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of this Agreement shall not affect the remaining portions hereof.
- c. This Loan Agreement is entered into between the parties concerning a no interest loan which CEC is making to Prineville pursuant to §313 of the Rural Electrification Act of 1936, as amended, to promote rural economic development and job creation projects. Accordingly, so long as CEC shall, under the terms of this Agreement, be the holder of the Note, this Agreement and the Note shall each be governed by and construed in accordance with the laws of the United States and the regulations of the USDA Rural Development, Rural Business – Cooperative Services.
- d. The parties will execute a number of related instruments in completing this loan, including the Note, Corporate Borrowing Resolution, Security Agreement, Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion-Lower Tier Covered Transactions. Attached hereto are true copies of the Note, Exhibit "A", Security Agreement, Exhibit "B" and the Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion-Lower Tier Covered Transaction, Exhibit "C". A default under any one of these instruments shall constitute a default under all of the instruments and give rise to the remedies set forth therein. Prineville must require these certifications in all lower tiered covered transactions.
- e. CEC covenants that its loan agreement with the City of Prineville will require the City of Prineville to provide to RBS and CEC, upon completion of the Project, a management representation letter certifying to the statements contained in Exhibit B of the letter agreement between CEC and RBS dated February 2, 1999.

IN WITNESS WHEREOF, the City of Prineville, as Prineville, has caused this Loan Agreement to be signed in its name and its corporate seal to be hereunto affixed and attested by its duly authorized officers thereunto, and Central Electric Cooperative, Incorporated, acting through its duly authorized officers thereunto has caused this Loan Agreement to be duly executed in its behalf, all as of the day and year first written above.

The City of Prineville

Central Electric Cooperative, Inc.

By: _____
Henry Hartley, City Manger

By: _____
Albert Gonzalez, CEO

By: _____
Secretary

By: _____
Shirley McCullough, Secretary