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FEDERAL ENERGY
REGULATORY COMMISSION

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DEBRA BETH ADLER
JOHN WYETH GRIGGS*

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July 25, 2003

Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
Office of the Secretary
Room 1A East
888 First Street, N.E.
Washington, D.C. 20426

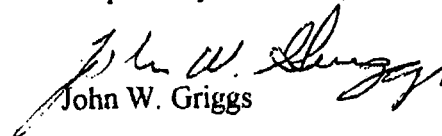
Re: NewCorp Resources Electric Cooperative, Inc., FERC Docket Nos. ES03-____-000

Dear Ms. Salas:

Enclosed for filing on behalf of NewCorp Resources Electric Cooperative, Inc. ("NewCorp") are the original and ten (10) copies of NewCorp's application for approval, under Section 204 of the Federal Power Act, of a loan to be secured by transmission system assets that are subject to the Commission's jurisdiction. An electronic copy of this filing is also enclosed. Please stamp the two extra copies of this filing to indicate receipt and return them to the messenger delivering this filing.

Thank you for your attention to this matter.

Respectfully submitted,


John W. Griggs

Enclosures
cc: Cap Rock Energy Corporation

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251

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FERC D#ES03-42000
Page 1 of 51

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

NewCorp Resources Electric Cooperative, Inc.) Docket No. ES03-_____-000

**APPLICATION FOR APPROVAL OF LOAN
TO BE SECURED BY JURISDICTIONAL TRANSMISSION ASSETS**

FILED
OFFICE OF THE
SECRETARY
2003 JUL 25 PM 4:26
FEDERAL ENERGY
REGULATORY COMMISSION

Lee D. Atkins, Secretary/Treasurer
NewCorp Resources Electric Cooperative, Inc.
500 West Wall, Suite 400
Midland, Texas 79701

John W. Griggs
Griggs & Adler, P.C.
12110 Sunset Hills Road
Suite 450
Reston, VA 20190
Attorneys for NewCorp
Resources Electric
Cooperative, Inc.

July 25, 2003

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252

TABLE OF CONTENTS

A. The Loan Meets the Requirements of Section 204 and Part 34 of the Regulations	2
1. Identifying information regarding the applicant (18 C.F.R. § 34.3(a)-(c))	2
2. The date by which Commission action is requested (18 C.F.R. § 34.3(d))	4
3. Request for waiver of competitive bidding requirements (18 C.F.R. § 34.2)	5
4. Description of the Loan (18 C.F.R. § 34.3(e))	5
5. Detailed description of the purpose of the Loan (18 C.F.R. § 34.3(f), (h))	5
6. Corporate authorizations (18 C.F.R. § 34.4(a), (b))	7
7. Filing with state agency (18 C.F.R. § 34.3(g))	7
8. Effect of loan on rates (18 C.F.R. § 34.3(j))	7
9. Lender's interest coverage (18 C.F.R. § 34.3(i))	8
10. Financial information (18 C.F.R. § 34.4(c)-(e))	8
B. Conclusion	9
Exhibits	

- 34-A: Articles of Incorporation
- 34-B: Corporate Resolution
- 34-C: Balance Sheet
- 34-D: Income Statement
- 34-E: Cash Flow Analysis
- 34-F: Loan Commitment Letter

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

NewCorp Resources Electric Cooperative, Inc.) Docket No. ES03-_____-000

**APPLICATION FOR APPROVAL OF LOAN
TO BE SECURED BY JURISDICTIONAL TRANSMISSION ASSETS**

Pursuant to Section 204 of the Federal Power Act ("FPA"), 16 U.S.C. § 824c, and Part 34 of the Rules and Regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"), 18 C.F.R. Part 34, NewCorp Resources Electric Cooperative, Inc. ("NewCorp") submits this application for an order of the Commission approving a loan to NewCorp from Beal Bank, S.S.B., in the amount of \$31,500,000 ("the Loan"). The primary purpose of the Loan is to refinance existing debt and to provide for working capital and maintenance reserves needed for ongoing operations. NewCorp requests waiver of the competitive bidding requirements of 18 C.F.R. § 34.2. NewCorp requests a shortened notice period and expedited review of this application so that the granting of the requested authorizations can be made by September 1, 2003. Expedited approval is requested so that NewCorp's existing debt can be refinanced in time to avoid a balloon payment coming due on September 9, 2003.

In connection with the refinancing proposed herein, NewCorp and its single wholesale customer, Cap Rock Energy Corporation ("CRE") have agreed to change the service provided by NewCorp to CRE from the WP (full requirements) Tariff to NewCorp's previously approved Open Access Transmission Tariff ("OATT"). Part of the proceeds of the Loan will be used to purchase certain transmission assets from CRE. Concurrently with this filing, NewCorp is making a separate application for Commission approval of these other aspects of the Loan transactions.

A. The Loan Meets the Requirements of Section 204 and Part 34 of the Regulations

1. Identifying information regarding the applicant (18 C.F.R. § 34.3(a)-(c))

NewCorp, maintains its corporate offices at 500 West Wall Street, Suite 400, Midland,

TX 79701. The persons responsible for this application are:

Lee D. Atkins, Secretary
NewCorp Resources Electric Cooperative, Inc.
500 West Wall, Suite 400
Midland, Texas 79701
Phone: 432-684-0305
Fax: 432-684-0333
latkins@cap-rock.net

John W. Griggs
Griggs & Adler, P.C.
12110 Sunset Hills Road, Suite 450
Reston, VA 20190
Phone: 703-715-3016
Fax: 703-716-2865
griggslaw@aol.com

NewCorp is an electric cooperative with a single member, CRE. CRE is NewCorp's sole customer. CRE serves retail customers in rural counties in the Permian Basin area of West Texas. CRE's predecessor, Cap Rock Electric Cooperative, Inc. ("Cap Rock"), converted to investor-owned status ("CRE") in 2002. Prior to 1994, in West Texas, Cap Rock purchased all of its power requirements from Texas Utilities Electric Company and was part of the Electric Reliability Council of Texas ("ERCOT"). In 1994, Cap Rock transferred the load of its Stanton and Lone Wolf Divisions to Southwestern Public Service Company ("SPS", a subsidiary of Xcel Energy, Inc. ("Xcel Energy")) and entered into a long-term power supply agreement with SPS. With this change, the Stanton and Lone Wolf Divisions of Cap Rock left ERCOT and became part of the Southwest Power Pool ("SWPP"). Cap Rock's smaller eastern divisions, which are not interconnected with the Stanton and Lone Wolf Divisions, remain in ERCOT.

Cap Rock formed NewCorp to own and operate its non-ERCOT transmission system, a looped system consisting of 305.9 miles of 138 kV transmission lines and including 16 substations. CRE continues to own the retail distribution system which is served from NewCorp's 16 substations. The system is interconnected to SPS at NewCorp's Jones and Vealmoor substations, and NewCorp presently obtains its full requirements from SPS. Cap Rock's wholesale power agreement with SPS was accepted by FERC in 1992 in Docket No. ER92-140-000, and the assignment of this agreement from Cap Rock to NewCorp was approved in 1995 in Docket No. ER95-517-000.

In conjunction with the change in service tariffs proposed herein, NewCorp and SPS have agreed to reassign the purchased power agreement back to CRE. Xcel Energy on behalf of SPS will make a filing with FERC to effect this change. Technically, SPS at this point in time is the legal owner of NewCorp's transmission system as part of a financing agreement entered into with SPS to upgrade the transmission system. NewCorp is the beneficial owner, and the ownership of the system will automatically revert to NewCorp after satisfying the terms of the financing arrangement. The money to upgrade the transmission system was loaned by Metropolitan Life Insurance Company ("Metropolitan Life") to NewCorp, with SPS as the guarantor of the loan. SPS constructed the transmission improvements, and retained legal title to the system. Under its financing agreement with SPS, NewCorp presently makes monthly payments to SPS for retirement of the amount borrowed to upgrade the transmission system, and SPS in turn pays Metropolitan Life. The refinancing proposed by this filing will allow retirement of the debt to Metropolitan Life by paying the final balloon payment due under the note, and, upon such repayment of the debt, SPS will transfer legal title of the transmission assets back to NewCorp. Xcel Energy has agreed to make an appropriate filing with FERC pursuant to Section 203 of the

Federal Power Act, 16 U.S.C § 824b, to transfer the transmission assets, contingent upon approval of the instant loan.¹

At the time the transmission system was upgraded, in addition to the loan from Metropolitan Life, NewCorp secured a loan from Cap Rock Cooperative Finance Corporation ("CRCFC") for the soft costs related to the upgrade project. CRCFC in turn secured the money to loan NewCorp by borrowing from the Cooperative Finance Corporation ("CFC"). In addition to repaying the Metropolitan Life loan, proceeds will be used to pay off the CRCFC loan, and CRCFC will in turn pay off the debt to CFC.

Subject to the qualification in the following sentence, NewCorp intends to join the RTO for the SWPP, once such an RTO has been approved by FERC. Any filings necessary in connection with joining the RTO will be made separately, but will require that NewCorp's rates and cash reserve requirements upon which the Loan is predicated not be reduced or jeopardized, and that NewCorp be allowed to recover any costs incurred in joining the RTO.

2. The date by which Commission action is requested (18 C.F.R. § 34.3(d))

Commission action is requested by September 1, 2003. The primary purpose of the loan is to refinance existing debt with Metropolitan Life. Under the existing loan with Metropolitan Life, NewCorp owes a balloon payment, which comes due on September 9, 2003. FERC's approval of the proposed loan by September 1, 2003 is necessary to allow sufficient time to close on the new loan and to pay off the existing Metropolitan Life debt before the balloon payment comes due.

¹ Closing of the Loan following FERC approval will be a complex transaction, involving four parties and requiring that SPS transfer title to NewCorp simultaneously with payment from Beal Bank and release and satisfaction of the Metropolitan Life loan.

3. Request for waiver of competitive bidding requirements (18 C.F.R. § 34.2)

NewCorp requests waiver of the competitive bidding requirements of 18 C.F.R. § 34.2. Over the past three years, NewCorp has talked to four different financial institutions regarding the securing of new financing for NewCorp's transmission system. NewCorp has been unable to close a deal with these other entities on terms acceptable to NewCorp. Waiver of competitive bidding requirements is necessary to allow NewCorp to close the Loan with Beal Bank, S.S.B., on acceptable terms and within the time required to avoid a default on the balloon payment provision.

4. Description of the Loan (18 C.F.R. § 34.3(e))

The Loan is for \$31,500,000, at an interest rate of 10.75% per annum, with a commitment from Beal Bank, S.S.B. to reduce the applicable interest rate to 9.75% if NewCorp changes the rate under its OATT (and FERC approves the change) to the same cost-of-service formula reflected in NewCorp's Tariff WP. NewCorp does not at this time propose to change the rate previously approved for its OATT, but instead proposes to initiate service to CRE under the existing terms of the OATT. The term of the Loan is 15 years, with complete amortization of the debt over this term. There is a prepayment penalty applicable during the first four years. There is no prepayment penalty after four years. Security for the Loan includes all of NewCorp's jurisdictional transmission assets. A copy of the bank's commitment letter showing the terms and conditions of the loan is attached to this application as Exhibit 34-F.

5. Detailed description of the purpose of the Loan (18 C.F.R. § 34.3(f), (h))

The proceeds of the Loan will be used: (i) to repay outstanding debt obligations of NewCorp owing to Metropolitan Life and CRCFC in connection with construction of the transmission system; (ii) for the payment of transaction costs and related Loan closing costs;

(iii) to finance the purchase price payable by NewCorp to CRE for certain assets to be transferred from CRE to NewCorp (which purchase price will not exceed the depreciated original cost of the assets so acquired); (iv) to fully fund maintenance and working capital reserve funds to be established pursuant to the Loan commitment letter; and (v) other general corporate purposes consistent with applicable law and regulations. CRCFC will use the proceeds from the debt repayment described above to repay amounts owed to the CFC.

Of the \$31.5 million in loan proceeds, \$17.9 million will be used to refinance existing debt, \$14.1 million of which is for the debt to Metropolitan Life and \$3.8 million of which is for the debt to CRCFC. The assets to be purchased from CRE include interests in real estate upon which the transmission lines and substations of the transmission system are located, a SCADA control system, and a mobile substation. The cost of these assets is \$6.1 million. The other general corporate purposes funded by the Loan include an amount of \$1.5 million for costs and fees incurred in connection with the loan and \$6.0 million for cash reserves and working capital, including funding of NewCorp's maintenance reserve and for a commitment to provide funds for emergency repairs and capital improvements.

The Commission has held that refinancing debt is a lawful object routinely practiced in the electric utility industry. Westar Energy, Inc., 102 FERC ¶ 61,186 (2003). Acquisition of utility property and adding to cash working capital are also valid purposes that FERC has recognized in approving loans under Section 204. Utilicorp United, Inc., 99 FERC ¶ 61,293 (2002); Baltimore Gas & Electric Co., 69 FERC ¶ 61,134 at 61,492 (1994), rehearing denied, 70 FERC ¶ 61,102 (1995); Consumers Power Co., 53 FERC ¶ 61,444 at 62,568, rehearing denied, 54 FERC ¶ 61,323 (1991), aff'd sub nom., Michigan Public Power Agency v. FERC, 963 F.2d 1574 (D.C. Cir. 1992). Because the Loan proceeds in this case would be used entirely in

NewCorp's regulated utility business, the Loan complies with the guidelines recently announced in the Westar decision.

6. Corporate authorizations (18 C.F.R. § 34.4(a), (b))

The Loan is for the lawful purpose of refinancing existing corporate debt, providing additional liquidity for NewCorp, and thereby enhancing the financial stability of the applicant. The Loan is within the corporate purpose of the applicant and is compatible with the public interest. It is necessary or appropriate or consistent with the proper performance by the applicant as a public utility, will not impair its ability to perform that service, and is reasonably necessary or appropriate for such purpose. The Loan will enhance the financial stability of NewCorp and its ability to serve its customer by enabling NewCorp to meet its obligation to make a balloon payment, retire existing debt, obtain legal title to its transmission assets, and improve its cash working capital, including its reserves.

Attached hereto as Exhibit 34-A is a copy of NewCorp's statement of corporate purposes from its articles of incorporation; attached as Exhibit 34-B is a copy of the resolution of the NewCorp Board of Directors authorizing the loan that is the subject of this application.

7. Filing with state agency (18 C.F.R. § 34.3(g))

NewCorp is not required to file a copy of this application with any state agency.

8. Effect of loan on rates (18 C.F.R. § 34.3(j))

There will be no changes proposed to NewCorp's filed transmission or full requirements rates as a result of this application; NewCorp does not propose to increase its rates as a result of this application. There have been no changes in NewCorp's tariff rates during the period covered by the financial statements submitted with this application. FERC has previously accepted for filing NewCorp's \$9,000,000 annual revenue requirement for the transmission

service.² While the filed rates will not be changed, the switch from Tariff WP to the OATT may have some effect on the rates actually paid by CRE. While the transmission component of the WP Tariff rate is the same as the OATT rate, the WP Tariff uses a cost-of-service formula that passes through to CRE all of NewCorp's actual costs, and includes an annual true-up adjustment for over or under recovery of the prior year's costs. Rate Schedule WP separately charges the transmission revenue requirement, then credits it back to the cost of service. If NewCorp's operation and maintenance costs actually exceed the \$9,000,000 transmission revenue requirement, those costs are automatically passed through to CRE under the WP Tariff, but not under the OATT. Similarly, if the transmission costs are less than \$9,000,000, then under the WP Tariff, CRE receives a true-up credit the following year. Such a credit is not made under NewCorp's OATT.

9. Lender's interest coverage (18 C.F.R. § 34.3(i))

The lender has imposed a specific interest coverage requirement of 1.2 times NewCorp's total debt service. NewCorp's current rate under its Tariff WP is based on a debt service coverage ratio of 1.2, and this is also the basis upon which the revenue requirement for the OATT rate was derived. The Lender also requires as a condition of the Loan that NewCorp establish a debt service reserve fund equal to two years of principal and interest payments, and maintenance and working capital reserve funds totaling \$6.0 million. The debt service reserve fund will be established over time with any revenue surplus earned by NewCorp.

10. Financial information (18 C.F.R. § 34.4(c)-(e))

Attached as Exhibits 34-C, 34-D and 34-E are the balance sheet, income statements, and

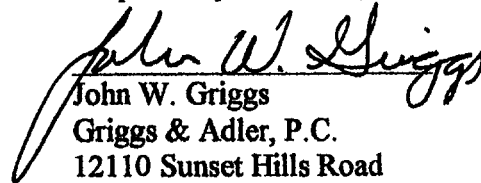
² The Tariff WP was recently amended in Docket No. ER02-623-000 to separately identify the transmission component of the wholesale service.

cash flow statements required by the Commission's regulations.

B. Conclusion

For the foregoing reasons, NewCorp respectfully requests that the Commission issue an order granting the requested waiver of notice and approving the proposed loan of \$31.5 million from Beal Bank, S.S.B.

Respectfully submitted,



John W. Griggs
Griggs & Adler, P.C.
12110 Sunset Hills Road
Suite 450
Reston, VA 20190
(703)715-3016
Counsel for NewCorp Resources Electric
Cooperative, Inc.

262

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

NewCorp Resources Electric Cooperative, Inc.)

Docket No. ES03-____-000

VERIFICATION

Lee D. Atkins, being duly sworn, deposes and says that he is Secretary and Treasurer of NewCorp Resources Electric Cooperative, Inc. and that he has read the foregoing Application, knows the content thereof, and that the matters set forth therein are true and correct to the best of his knowledge and belief.



Lee D. Atkins
Secretary/Treasurer, NewCorp

Resources

Electric Cooperative, Inc.

Subscribed and sworn to before me, the undersigned authority, this 24th day of July, 2003.



Notary Public

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

NewCorp Resources Electric Cooperative, Inc.)

Docket No. ES03-____-000

NOTICE OF FILING

(July __, 2003)

Take notice that on July __, 2003, NewCorp Resources Electric Cooperative, Inc. (NewCorp) tendered for filing pursuant to Section 204 of the Federal Power Act an application for approval of a loan in the amount of \$31.5 million to be secured with jurisdictional assets of NewCorp. NewCorp requests waiver of notice requirements to allow expedited approval to occur prior to September 1, 2003.

Any person desiring to be heard or to protest said filing should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 385.211 and 385.214). All such motions or protests should be filed on or before _____. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a motion to intervene. Copies of this filing are on file with the Commission and are available for public inspection. This filing may also be viewed on the internet at <http://www.ferc.fed.us/online/rims.htm> (call 202-208-2222 for assistance).

Magalie R. Salas

Secretary

EXHIBIT 34-A

ARTICLES OF INCORPORATION

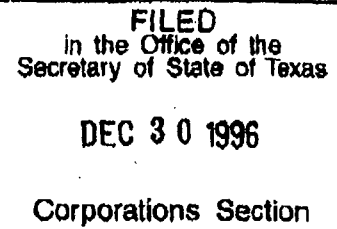
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265

ARTICLES OF INCORPORATION
OF
NEWCORP RESOURCES ELECTRIC COOPERATIVE, INC.

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

KNOW ALL MEN BY THESE PRESENTS:



We, the undersigned, being natural persons of the age of twenty-one years or more and citizens and residents of the State of Texas, for the purpose of forming a corporation under the "Electric Cooperative Corporation Act" of the State of Texas, do hereby adopt the following Articles of Incorporation:

ARTICLE I

NAME

The name of the Corporation is NewCorp Resources Electric Cooperative, Inc.

ARTICLE II

PURPOSES, RIGHTS and POWERS

The purposes for which the Corporation is organized are all of those purposes set forth in Section 3 of Article 1528b, Vernon's Annotated Civil Statutes of the State of Texas, as amended or as may hereafter be amended, and to have and to exercise all rights and powers that are now or may hereafter be granted to an electric cooperative corporation by law.

ARTICLE III

ORIGINAL INCORPORATORS

The names and addresses of the original incorporators who serve as Directors and manage the affairs of the Corporation until its first annual meeting of the members, or until their successors are elected and qualified, are as follows:

David W. Pruitt, 500 W. Wall, Suite 400, Midland, Texas, 79701

John D. Parker, 500 W. Wall, Suite 400, Midland, Texas, 79701

Ronnie Lyon, 711 N. Travis Street, Sherman, Texas, 75090

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266

ARTICLE IV

NUMBER OF DIRECTORS

The Cooperative shall at all times have a total of not less than three (3) directors. The total number of directors to be elected in any twelve (12) consecutive months at all official Meetings of Members shall be not more than one-third (1/3) of the total number of Directors currently serving on the Board of Directors, plus one.

ARTICLE V

PRINCIPAL OFFICE and REGISTERED AGENT

The address of the principal offices of the corporation shall be 500 W. Wall, Suite 400, Midland, Midland County, Texas, 79701, and the name and address of its agent upon whom process may be served is John D. Parker of the same business address.

ARTICLE VI

DURATION

The duration of the Corporation shall be perpetual.

ARTICLE VII

MEMBERSHIP

The terms and conditions upon which person shall be admitted to and retain membership in the Corporation shall be reserved to the Directors as determined by the Bylaws.

ARTICLE VIII

Disposition of Property

Section 1. Except as provided in Section 2 of this Article VIII, the Corporation may not sell, mortgage, lease as Lessor, lease-sell, or otherwise dispose of or encumber any of its property other than:

- (a) property which in the judgment of the Board of Directors neither is nor will be necessary or useful in operating and maintaining the Corporation's system and facilities; provided, however, that all sales of such property shall not in any one (1) year exceed in value twenty per centum (20%) of the value of all of the property of the Corporation;

(b) services of all kinds, including electric energy; and

(c) personal property acquired for resale;

unless such sale, mortgage, lease, lease-sale or other disposition or encumbrance is authorized by the affirmative vote of at least two-thirds (2/3) of the total members of the Corporation at a meeting at which a quorum of not less than one-third (1/3) of the total members are present in person or represented by proxy, if such voting is provided for in accordance with the Bylaws, and the notice of such proposed transaction shall have been contained in the notice of the meeting; PROVIDED HOWEVER, that notwithstanding anything herein contained, the Board of Directors, without further authorization by the members, shall have full power and authority to borrow money from the United States of America, or any agency or instrumentality thereof, or from any national financing institution organized on a cooperative plan for the purpose of financing its member's programs, projects and undertakings and in which the Corporation holds membership, or from any other financing or lending institution of any kind whatsoever, without limitation, including but not limited to Banks, Insurance Companies, Leasing Companies, Bond Companies, and Investment Banking Firms, and in connection with such borrowing to authorize the making and issuance of bonds, notes or other evidences of indebtedness and, after indebtedness, or to authorize the Corporation to use alternative methods of financing such as sale-leaseback agreements, private placement borrowing, stock sales or other types of financing arrangements and, to secure the payment thereof, to authorize the execution and delivery of a mortgage or mortgages or a deed of deeds of trust upon, or the pledging or encumberancing of any or all of the property, assets, rights, privileges, licenses, franchises and permits of the Corporation, wherever situated and whether acquired or to be acquired, all upon such terms and conditions as the Board of Directors shall determine.

Section 2. If such a sale, mortgage, lease as Lessor, lease-sale, exchange, merger, consolidation, combination or other disposition is solely to one or more electric cooperatives organized by the board of directors of this Corporation and operating under the Texas Electric Cooperative Corporation Act or to any corporation organized by the board of directors of this Corporation or for the purpose of becoming a successor to this Corporation or its assignee, transferee, mortgagee, or grantee, or to any other corporation or entity if the Board of Directors has voted in favor of such sale, mortgage, lease as Lessor, lease-sale, exchange, merger, consolidation, combination or other disposition and such sale is therefore not a "hostile" sale, the provisions of this Article VIII, Sections 1 and 3, shall not apply. If such sale, mortgage, lease, lease-sale, or other disposition or encumbrance is solely to one or more other electric cooperatives, other than one organized by the Corporation's board of directors as described above, organized and operating under the Texas Electric Cooperative Corporation Act, or if the proposal is to consolidate the Corporation with one or more other electric cooperatives pursuant to Section 27 of Article 1528(b) of that Act, the quorum requirement for the member meeting at which such proposed transaction is to be considered and acted upon shall be as established by Article IX of these Articles of Incorporation, and the number of percentage of the Cooperative's members who must affirmatively vote for the transaction in order to authorize it shall be as provided in the Corporation's Bylaws or in that Act.

268

Section 3. Neither this Section 3 of Article VIII nor the requirements in Section 1 of this Article for a quorum of not less than one-third (1/3) of the total members are present in person or represented by proxy, if such voting is provided for in accordance with the Bylaws, and for an affirmative vote of at least two-thirds (2/3) of the Corporation's total members in order to approve the proposed transaction may be amended except at a member meeting at which at least a like quorum is present in person and at least a like number of affirmative votes is cast in favor of such amendment.

ARTICLE IX

QUORUM

Except as provided in Article VIII of these Articles of Incorporation, business may not be transacted at any meeting of the members unless there are present in person or represented by proxy, if such voting is provided for in accordance with the Bylaws, twenty percent (20%) of the Cooperative's members which amount shall constitute a quorum. If less than a quorum is present at any meeting, a majority of those present in person or represented by proxy, if such voting is provided for in accordance with the Bylaws, may adjourn the meeting from time to time without further notice.

ARTICLE X

BYLAWS AMENDMENTS

The Bylaws of the Corporation may be altered, amended, or repealed by the Board of Directors in such manner as is provided in the Bylaws.

ARTICLE XI

DIRECTOR LIABILITY

Section 1. Directors of the Corporation shall not be liable to the Corporation or its members for monetary damages for an act or omission in the Director's capacity as a Director except that this Article does not eliminate or limit the liability of a Director for:

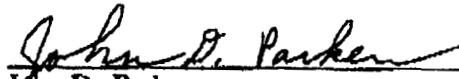
- (1) a breach of a Director's duty of loyalty to the Corporation or its shareholders or members;
- (2) an act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law;
- (3) a transaction from which a Director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the Director's office;

- (4) an act or omission for which the liability of a Director is expressly provided for by statute; or
- (5) an act related to an unlawful stock repurchase or payment of a dividend.

Section 2. This Article XI applies only to an act or omission occurring on or after August 31, 1987.

IN WITNESS WHEREOF we have hereunto set our hands and seals this 27th day of December, 1996.


David W. Pruitt


John D. Parker

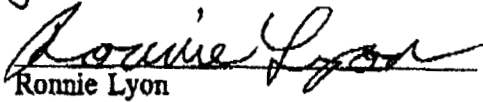

Ronnie Lyon

EXHIBIT 34-B

Resolution Authorizing Execution of Loan Documents

WHEREAS, The Board of (Trustees/Directors) of NewCorp Resources Electric Cooperative, Inc. ("NewCorp") previously authorized management to pursue a loan to refinance NewCorp's transmission system;

WHEREAS, NewCorp has filed an Application with Beal Bank, the terms of which have been approved by Beal Bank;

WHEREAS, NewCorp is currently negotiating the terms of a commitment letter from Beal Bank; and

WHEREAS, the Board of Directors has determined that it is in the best interest of NewCorp to refinance the transmission system through a loan with Beal Bank.

NOW, THEREFORE BE IT RESOLVED, that NewCorp refinance the transmission system on terms similar to those contained in the Application which was approved by Beal Bank and presented to the Board of Directors.

BE IT FURTHER RESOLVED Lee D. Atkins, David W. Pruitt and any other proper officers, representatives, agents and employees of NewCorp be, and each of them hereby is, authorized, for and on behalf of NewCorp to execute all necessary documents including but not limited to the Note, Loan Agreement and Security Instruments, to transmit same to Beal Bank, together with payment of all sums required to be paid under the terms of Agreement with Beal Bank, to make such further payments as may be required as a condition of borrowing, and to do or cause to be done all such other acts and things as any such officer or employee may deem necessary or proper to effectuate the purpose of this Resolution.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of said corporation and affixed the corporate seal this 24th day of June 2003.

Lee D. Atkins, Secretary

(Applicant's Corporate Seal Here)

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271

Resolution Authorizing Execution of Loan Documents

WHEREAS, The Board of Directors of NewCorp Resources Electric Cooperative, Inc. ("NewCorp") previously authorized management to pursue a loan to refinance NewCorp's transmission system;

WHEREAS, NewCorp has filed an Application with Beal Bank, the terms of which have been approved by Beal Bank;

WHEREAS, NewCorp is currently negotiating the terms of a commitment letter from Beal Bank; and

WHEREAS, the Board of Directors has determined that it is in the best interest of NewCorp to refinance the transmission system through a loan with Beal Bank.

NOW, THEREFORE BE IT RESOLVED, that NewCorp refinance the transmission system on terms similar to those contained in the Application which was approved by Beal Bank and presented to the Board of Directors.

BE IT FURTHER RESOLVED Lee D. Atkins, David W. Pruitt and any other proper officers, representatives, agents and employees of NewCorp be, and each of them hereby is, authorized, for and on behalf of NewCorp to execute all necessary documents including but not limited to the Note, Loan Agreement and Security Instruments, to transmit same to Beal Bank, together with payment of all sums required to be paid under the terms of Agreement with Beal Bank, to make such further payments as may be required as a condition of borrowing, and to do or cause to be done all such other acts and things as any such officer or employee may deem necessary or proper to effectuate the purpose of this Resolution.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of said corporation and affixed the corporate seal this 17th day of July, 2003.



Lee D. Atkins, Secretary

(Applicant's Corporate Seal Here)



001930

272

EXHIBIT 34-C
BALANCE SHEET

001931

273

NewCorp Resources Electric Cooperative, Inc.				
COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)				
Title of Account	3/31/03		Proforma Adjustments	Proforma Basis 3/31/03
1 UTILITY PLANT				
2 Utility Plant (101-106, 114)	63,909,333	(A)	3,607,391	67,516,724
3 Construction Work in Progress (107)	69			69
4 TOTAL Utility Plant (Enter Total of lines 2 and 3)	63,909,402			67,516,793
5 (Less) Accum. Prov for Depr. Amort, Depl (108, 111, 115)	(15,365,716)			(15,365,716)
6 Net Utility Plant (Enter Total of line 4 less 5)	48,543,686			52,151,077
7 Nuclear Fuel (120.1-120.4, 120.6)				-
8 (Less) Accum Prov for Amort of Nucl Fuel Assemblies (120.5)				-
9 Net Nuclear Fuel (Enter Total of line 7 less 8)				-
10 Net Utility Plant (Enter Total of lines 6 and 9)	48,543,686			52,151,077
11 Utility Plant Adjustments (116)				-
12 Gas Stored Underground - Noncurrent (117)				-
13 OTHER PROPERTY AND INVESTMENTS				
14 Nonutility Property (121)	1,973,367			1,973,367
15 (Less) Accum Prov for Depr and Amort (122)	(709,257)			(709,257)
16 Investments in Associated Companies (123)	241,444			241,444
17 Investment in Subsidiary Companies (123.1)				-
18 (For Cost of Account 123.1, See Footnote Page 224, line 42)				-
19 Noncurrent Portion of Allowances				-
20 Other Investments (124)	2,833,971			2,833,971
21 Special Funds (125-128)	7,706,414	(B)	(1,564,899)	6,141,515
22 TOTAL Other Property and Investments (Total of lines 14-17, 19-21)	12,045,939			10,481,040
23 CURRENT AND ACCRUED ASSETS				
24 Cash (131)	98,943	(C)	401,057	500,000
25 Special Deposits (132-134)				-
26 Working Fund (135)				-
27 Temporary Cash Investments (136)				-
28 Notes Receivable (141)	12,225,461			12,225,461
29 Customer Accounts Receivable (142)	3,882,716	(D)	(3,706,904)	175,812
30 Other Accounts Receivable (143)				-
31 (Less) Accum Prov for Uncollectible Acct - Credit (144)	(2,359)			(2,359)
32 Notes Receivable from Associated Companies (145)				-
33 Accounts Receivable from Assoc Companies (146)	1,160,364	(E)	(410,364)	750,000
34 Fuel Stock (151)				-
35 Fuel Stock Expenses Undistributed (152)				-
36 Residuals (Elec) and Extracted Products (153)				-
37 Plant Materials and Operating Supplies (154)	88,359			88,359
38 Merchandise (155)				-
39 Other Materials and Supplies (156)				-
40 Nuclear Materials Held for Sale (157)				-
41 Allowances (158.1 and 158.2)				-
42 (Less) Noncurrent Portion of Allowances				-
43 Stores Expense Undistributed (163)				-
44 Gas Stored Underground - Current (164.1)				-
45 Liquefied Natural Gas Stored and Held for Processing (164.2-164.3)				-
46 Prepayments (165)	4,249			4,249
47 Advances for Gas (166-167)				-
48 Interest and Dividends Receivable (171)	35,488			35,488
49 Rents Receivable (172)				-
50 Accrued Utility Revenues (173)				-
51 Miscellaneous Current And Accrued Assets (174)	5,271			5,271
52 Derivative Instruments Assets (175)				-
(A) Includes real property purchased with the proceeds of the new loan.				
(B) Original amount of \$7,706,414 was received from the holder and distributed to the member as patronage capital retirement, plus \$5.5 million received from the proceeds of the new loan as a Maintenance Reserve Fund, and \$641,515 from regular cash flow set aside as a Debt Service Fund.				
(C) Net cash flows created in the regular course of business and able to be retained pursuant to the arrangements of the new loan. Also includes receipt of original balance of special funds of \$7,706,414 and immediate retirement of patronage capital (equity).				
(D) Adjustment needed to reverse out the amounts associated with sales of purchased power for the proforma presentation.				
(E) Net adjustment needed to present one months' balance due for transmission services on a proforma basis.				
Additional Note: Certain reclassifications have been made to conform to the corrected financial information that will be presented in an amended Form 1 filing.				

274

001932

NewCorp Resources Electric Cooperative, Inc.				
COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS) (Continued)				
Title of Account		3/31/03	Proforma Adjustments	Proforma Basis 3/31/03
53	Derivative Instruments Assets - Hedges (176)			-
54	TOTAL Current and Accrued Assets (Enter Total of lines 24 thru 51)	17,498,492		13,782,281
55	DEFERRED DEBITS			
56	Unamortized Debt Expenses (181)	509,724	(F)	907,368
57	Extraordinary Property Losses (182.1)			-
58	Unrecovered Plant and Regulatory Study Costs (182.2)			-
59	Other Regulatory Assets (182.3)			-
60	Prelim Survey and Investigation Charges (Electric) (183)			-
61	Prelim Sur and Invest Charges (Gas) (183.1,183.2)			-
62	Clearing Accounts (184)			-
63	Temporary Facilities (185)			-
64	Miscellaneous Deferred Debits (186)			-
65	Def Losses from Disposition of Utility Pft (187)			-
66	Research, Devel, and Demonstration Expend (188)			-
67	Unamortized Loss on Reacquired Debt (189)			-
68	Accumulated Deferred Income Taxes (190)			-
69	Unrecovered Purchased Gas Costs (191)			-
70	TOTAL Deferred Debits (Enter Total of lines 54 thru 69)	509,724		1,417,092
71	TOTAL Assets and Other Debits (Enter Total of lines 10,11,12,22,52,70)	78,597,841	(766,351)	77,831,490
(F) Includes write-off of unamortized balance of costs associated with the original lease of \$509,724, plus costs of \$1,518,313 incurred in connection with the new loan, and amortization of \$101,221 of those new costs for one year.				
Additional Note: Certain reclassifications have been made to conform to the corrected financial information that will be presented in an amended Form 1 filing.				

NewCorp Resources Electric Cooperative, Inc.				
COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(Continued)			Proforma	Proforma Basis
		3/31/03	Adjustments	3/31/03
Title of Account				
46	Derivative Instruments Liabilities (244)			
47	Derivative Instrument Liabilities - Hedges (245)			
48	TOTAL Current & Accrued Liabilities (Enter Total of lines 32 thru 44)	32,454,922		18,635,950
49	DEFERRED CREDITS			
50	Customer Advances for Construction (252)			
51	Accumulated Deferred Investment Tax Credits (255)			
52	Deferred Gains from Disposition of Utility Plant (256)			
53	Other Deferred Credits (253)			
54	Other Regulatory Liabilities (254)			
55	Unamortized Gain on Recquired Debt (257)			
56	Accumulated Deferred Income Taxes (261-283)			
57	TOTAL Deferred Credits (Enter Total of lines 47 thru 53)	-		-
58				
59				
60				
61				
62				
63				
64				
65				
66				
67				
68				
69				
70				
71	TOTAL Liab and Other Credits (Enter Total of lines 14,22,30,45,54)	78,597,841	(768,351)	77,831,490

001934

276

EXHIBIT 34-D
INCOME STATEMENT

277

NewCorp Resources Electric Cooperative, Inc.				
STATEMENT OF INCOME FOR THE YEAR				
	12 mo ended		Proforma	Proforma Basis
	3/31/03		Adjustments	12 months ended
Account				
1 UTILITY OPERATING INCOME				
2 Operating Revenues (400)	37,753,932	(K)	(26,284,620)	11,469,312
3 Operating Expenses	-			-
4 Operation Expenses (401)	27,017,411	(L)	(22,448,323)	4,569,088
5 Maintenance Expenses (402)	1,107,208			1,107,208
6 Depreciation Expense (403)	1,917,191			1,917,191
7 Amort & Depr of Utility Plant (404-405)	-			-
8 Amort of Utility Plant Acq Adj (406)	-			-
9 Amort Property Losses, Unrecov Plant and Regulatory Study Costs (407)	-			-
10 Amort of conversion Expenses (407)	-			-
11 Regulatory Debits (407.3)	-			-
12 (Less) Regulatory Credits (407.4)	-			-
13 Taxes Other Than Income Taxes (408.1)	402,198			402,198
14 Income Taxes - Federal (409.1)	-			-
15 - Other (409.1)	-			-
16 Provision for Deferred Income Taxes (410.1)	-			-
17 (Less) Provision for Deferred Income Taxes - Cr (411.1)	-			-
18 Investment Tax Credit Adj - Net (411.4)	-			-
19 (Less) Gains from Disp of Utility Plant (411.6)	-			-
20 Losses from Disp of Utility Plant (411.7)	-			-
21 (Less) Gains from Disposition of Allowances (411.8)	-			-
22 Losses from Disposition of Allowances (411.9)	-			-
23 TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 22)	30,444,008			7,995,685
24 Net Util Oper Inc (Enter Tot line 2 less 23) Carry fwd to P117, line 25	7,309,924		(48,732,943)	3,473,627
(K) Adjustment needed to reverse effect of sales of actual power, because of the implementation of the new tariff.				
(L) Adjustment needed to reverse effect of purchases of power, because of the implementation of the new tariff.				
Additional Note: Certain reclassifications have been made to conform to the corrected financial information that will be presented in an amended Form 1 filing.				

EXHIBIT 34-E
CASH FLOW ANALYSIS

EXHIBIT 34-F

280

Beal Bank, S.S.B.

Date: July 25, 2003

6000 Legacy Drive
4th Floor
Plano, Texas 75024
(469) 467-5000

NewCorp Resources Electric Cooperative, Inc.
500 West Wall, Suite 400
Midland, Texas 79701
Fax: (915) 684-0333

Re: NewCorp Resources Electric Cooperative, Inc.

Ladies and Gentlemen:

Beal Bank, S.S.B. (the "Beal") is pleased to advise NewCorp Resources Electric Cooperative, Inc. ("Borrower") that in accordance with your request, Beal hereby commits to lend Borrower up to Thirty One Million Five Hundred Thousand Dollars (\$31,500,000.00) in the form of a term loan (the "Loan") subject to the terms and provisions of this letter and the Term Sheet attached hereto as Exhibit "A" (the "Term Sheet" and together with this letter, the "Commitment Letter").

As consideration for Beal's commitment hereunder, you agree to pay to Beal the fees set forth in the Term Sheet which are nonrefundable except as set forth therein. You agree to indemnify and hold harmless Beal and its affiliates and their respective officers, directors, employees, advisors, and agents (each, an "indemnified person") from and against any and all losses, claims, damages and liabilities to which any such indemnified person may become subject arising out of or in connection with this Commitment Letter, the Loan, the use of the proceeds thereof, any loan broker or finder engaged or allegedly engaged by the Borrower making claims in respect of the Loan or any related transaction or any claim, litigation, investigation or proceeding relating to any of the foregoing, regardless of whether any indemnified person is a party thereto, and to reimburse each indemnified person upon demand for any reasonable legal or other expenses incurred in connection with investigating or defending any of the foregoing; provided that the foregoing indemnity will not, as to any indemnified person, apply to losses, claims, damages, liabilities or related expenses to the extent they are found by a final, non-appealable judgment of a court to arise from the willful misconduct, unlawful conduct or gross negligence of such indemnified person. YOU AGREE THAT THE INDEMNITY CONTAINED IN THE PRECEDING SENTENCE EXTENDS TO AND IS INTENDED TO COVER LOSSES AND RELATED EXPENSES ARISING OUT OF THE ORDINARY, SOLE OR CONTRIBUTORY NEGLIGENCE OF ANY INDEMNIFIED PERSON. You also agree to reimburse Beal and its affiliates on demand for all reasonable out-of-pocket expenses (including reasonable due diligence expenses, environmental engineer and appraisal fees and expenses of Appraisal Economics, Inc. and Stone & Webster Management Consultants, Inc., travel expenses, and reasonable fees, charges and disbursements of counsel) incurred in connection with this Commitment Letter, the Loan and any related documentation (including the definitive financing documentation) or the administration, amendment, modification or waiver thereof. No indemnified person shall be liable for any damages arising from the use by others of information or other materials obtained through the unauthorized use of electronic, telecommunications or other information transmission systems or for any special, indirect, consequential or punitive damages in connection with the Loan. Beal has no liability or obligation of any kind to pay any broker's fee, finder's fee or other fee relating to the Loan which is charged by a broker, finder or third party engaged or allegedly engaged by the Borrower.

001939

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281
PIONEER 1-23
FERC D#ES03-42000
Page 31 of 51

50 This Commitment Letter shall be governed by and construed in accordance with the laws of the State of
51 Texas and the applicable laws of the United States of America.

52
53 This Commitment Letter, when executed, shall be binding upon and inure to the benefit of only the
54 parties hereto and their respective successors and assigns, provided that you may not assign or transfer any of
55 your rights or obligations hereunder except as provided for in the Terms Sheet or, in any other case, without the
56 prior written consent of Beal, which consent may be granted or withheld as Beal may determine in its sole
57 discretion. Any assignment in violation of the foregoing shall be null and void. All conditions in this
58 Commitment Letter are express conditions and the failure to satisfy any one of the conditions set forth herein shall
59 release Beal from its commitment to extend the Loan hereunder.

60
61 In the event each of the conditions to Beal's obligation to fund the Loan is satisfied and the Borrower
62 performs each of the Borrower's obligations described in this Commitment Letter and Beal thereafter fails or
63 refuses to close the Loan, (a) Beal will return to the Borrower the Commitment Fee and Aggregate Expense
64 Deposit described in the Term Sheet and paid by the Borrower to Beal; (b) the Borrower shall be entitled to
65 recover up to, but not in excess of, an amount equal to the Borrower's actual out-of-pocket expenses incurred in
66 connection with the negotiation and documentation of the Application for Loan referenced below, this
67 Commitment Letter, the proposed Loan and the transactions contemplated hereunder (including, without
68 limitation, costs incurred for consultants and reasonable attorney fees and expenses of Griggs & Adler, P.C. and
69 Milbank, Tweed, Hadley & McCloy LLP), as the Borrower's sole and exclusive remedy for such a failure or
70 refusal, the Borrower hereby waiving all other remedies and relief; and (c) any and all indemnity obligations of the
71 Borrower in favor of Beal under this Commitment Letter shall terminate and the Borrower shall have no further
72 obligations to Beal.

73
74 Any provision of this Commitment Letter held by a court of competent jurisdiction to be invalid or
75 unenforceable shall not impair or invalidate the remainder of this Commitment Letter and the effect thereof shall
76 be confined to the provisions held to be invalid or unenforceable.

77
78 **THIS COMMITMENT LETTER, WHEN EXECUTED, SHALL CONSTITUTE THE FINAL**
79 **ENTIRE AGREEMENT OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF**
80 **AND SHALL SUPERSEDE AND REPLACE ANY OTHER PREVIOUS COMMITMENTS OR**
81 **AGREEMENTS RELATING TO THE SUBJECT MATTER HEREOF, WHETHER WRITTEN OR**
82 **ORAL (INCLUDING, WITHOUT LIMITATION, THAT CERTAIN APPLICATION FOR LOAN**
83 **DATED JUNE 23, 2003 BUT EXCLUDING HOWEVER, THAT CERTAIN LETTER FROM JACOB**
84 **CHERNER OF CSG INVESTMENTS, INC. DATE DECEMBER 11, 2002 RELATING TO THE**
85 **NONDISCLOSURE OF NONPUBLIC CONFIDENTIAL INFORMATION) AND MAY NOT BE**
86 **CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL**
87 **AGREEMENTS OF THE PARTIES. OTHER THAN THE CONFIDENTIALITY LETTER**
88 **REFERRED TO IN THE FORGING SENTENCE, THERE ARE NO WRITTEN OR ORAL**
89 **COMMITMENTS OR OTHER AGREEMENTS BETWEEN BEAL AND THE BORROWER.**

90
91 This Commitment Letter may be executed in counterparts, each of which shall be deemed an original, but
92 all of which together shall constitute one and the same agreement. Delivery of an executed signature page of this
93 Commitment Letter by facsimile transmission shall be effective as delivery of manually executed counterpart
94 hereof.
95

NewCorp Resources Electric Cooperative, Inc.
July 25, 2003

The compensation, reimbursement and indemnification provisions contained herein shall remain in full force and effect regardless of whether definitive financing documentation shall be executed and delivered and notwithstanding the termination of this Commitment Letter or Beal's commitment hereunder.

The offer by Beal of the commitment hereunder shall expire on 5:00 p.m. (Dallas, Texas Time), on July 30, 2003, unless this Commitment Letter is signed by the Borrower and returned to Beal prior to such date and time along with any requested Additional Expense Deposit and the Initial Commitment Fee Installment (each as defined in the Term Sheet). Once accepted by the Borrower, the commitment of Beal set forth herein will expire and be of no further force and effect at 5:00 p.m. (Dallas, Texas time) on December 31, 2003, (the "Termination Date") if the closing date does not occur by such date and time. The provisions of this Commitment Letter may be waived prior to the closing of the transactions contemplated hereby only by written agreement signed by the parties hereto.

If you accept the terms and conditions set forth in this Commitment Letter, please execute a copy of this Commitment Letter in the space below and return a copy to us along with the payments required by the Term Sheet at your earliest convenience and in any event prior to the expiration of our offer set forth above.

Very truly yours,

BEAL BANK, S.S.B.

By: _____
William T. Saurenmann, Senior Vice President

ACCEPTED AND AGREED TO
As of the date first above written.

NEWCORP RESOURCES ELECTRIC
COOPERATIVE, INC.

By: _____
Name: _____
Title: _____

Exhibit "A"
to
Commitment Letter
Dated
25 July 2003
between
NewCorp Resources Electric Cooperative, Inc.
and
Beal Bank, S.S.B.

TERM SHEET

BANK: Beal Bank, S.S.B.

BORROWER: NewCorp Resources Electric Cooperative, Inc. ("Borrower")
500 West Wall, Suite 400
Midland, Texas 79701
Telephone: (915) 684-0305
Fax: (915) 684-0333
TAX ID/SS#: 91-1860218

LOAN AMOUNT: The Loan Amount shall be \$31,500,000.

ADVANCES: The Loan shall be advanced on the closing date. Once amounts are repaid under the Loan they may not be re-borrowed.

COMMITMENT FEE: A Commitment Fee of 2.0% of the Loan Amount (\$630,000) will be earned upon written acceptance of this Commitment Letter by the Borrower. \$315,000 of this fee will be due and payable at the time of written acceptance of this Commitment Letter by the Borrower (the "Initial Commitment Fee Installment") with the balance of \$315,000 to be payable only on the date of closing and funding of the Loan; provided, however, the Borrower acknowledges that, so long as Beal performs in substantial compliance with the terms of this Commitment Letter and is prepared to close and fund the Loan on the terms of this Commitment Letter on or before the Termination Date or if there is a material misrepresentation by the Borrower, then the entire Commitment Fee will have been earned and the unpaid balance will be due and payable, whether or not the Borrower consummates the transaction as contemplated. Notwithstanding the foregoing, however, if Beal decides not to make the Loan: (i) because any regulatory agency governing the Borrower (including but not limited to the Federal Energy Regulatory Commission, herein "FERC") is required to but does not approve the Loan or the other transactions contemplated hereby; (ii) because any regulatory agency governing the Borrower (including but not limited to PUCT) prohibits the consummation of the transactions contemplated hereby or rules or takes action that could have an adverse impact on the transactions contemplated hereby or the Collateral (as defined below); (iii) because the Borrower is unable to obtain the agreement of National Rural Utilities Cooperative Finance

TARIFF:

modified the tariff then applicable to Borrower in a manner that could reasonably be expected to have, as reasonably determined by Beal, a Material Adverse Effect, the Loan shall accrue interest at a per annum rate equal at all times to the greater of (i) 9.75% or (ii) 6% plus the LIBOR Rate; provided that the aggregate amount of all interest fees, payments, and other charges contracted for, charged, or received in connection with the Loan that constitute interest under applicable law shall not exceed the maximum rate permitted by applicable law.

RATE CALCULATION:

Interest shall be calculated on the basis of a year of 360 days and the actual number of days elapsed (including the first day and excluding the last) occurring in the period for which such interest is payable unless such calculation would result in a usurious rate, in which case interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be.

DEFAULT INTEREST RATE:

Five percent (5%) plus the rate otherwise in effect. The default rate shall apply only to the amount of any past due payments.

REPAYMENT TERMS:

Principal and Interest will be payable monthly beginning the first day of the first month after the closing.

PREPAYMENT:

Prepayment will not be allowed during the initial twenty-four (24) months of the Loan Term. Prepayment will be allowed with a 1% fee during months twenty-five (25) through forty-eight (48). Prepayment (whether in whole or in part) after month forty-eight (48) will be allowed at par.

ASSIGNMENT BY BORROWER:

The Borrower shall have the right to assign its rights and obligations under the Loan to a third party that is reasonably acceptable to Beal and acceptable and approved by FERC as long as: (i) no default then exists, and (ii) such third party shall acquire the assets of the Borrower and shall assume the obligations of the Borrower pursuant to such documentation as Beal may reasonably require and pursuant to a transaction approved by Beal and, to the extent such approvals are legally required, any applicable regulatory authorities. Beal's decision whether to approve of a transaction under this paragraph will be made in its judgment, in good faith and based on such factors which, in its judgment, supports such decision. Beal's approval regarding any such transaction will not be unreasonably withheld or delayed.

COLLATERAL:

The Loan is to be secured by the following (the property described below, herein the "Collateral"):

- (a) a perfected first priority lien in all assets of the Borrower (other than the Excluded Assets described below), including without limitation, all of the Borrower's right, title and interest in and to the following:
 - (i) the 305 mile Electric Transmission System ("System"), including sixteen electric substations with all related real and personal property including, without limitation, easements, electric lines and facilities;

- (ii) the revenues, cash, accounts and accounts receivable of the Borrower;
 - (iii) all deposit, commodity and investment accounts of the Borrower, including without limitation, the Collection Account described below in this section and the accounts holding the reserve funds described below in clause (i) of the Conditions section of this Term Sheet;
 - (iv) all general intangibles, including, without limitation or in addition, the Transmission Service Agreement (as defined below), the O&M Agreement (as defined below) and the other material contracts to which the Borrower is a party in connection with the System, including without limitation contracts to purchase electricity, hedging agreements, insurance and permits, easements, rights of way, licenses and governmental approvals related to the System or the Borrower; and
 - (v) the purchase agreement between the Borrower and CRE and all assets of the Borrower acquired under the terms thereof (the "Purchase Agreement"); and
- (b) a perfected first priority lien in all of CRE's right, title and interest in the Borrower, including without limitation, all right, title and interest in CRE's membership interest in the Borrower, the right of CRE to select the board of directors of the Borrower and all other rights arising in its capacity as a member of Borrower (the Collateral described in this clause (b), herein the "Membership Rights"). Without limitation of Beal's rights as set forth in the Loan Documents to require Borrower and CRE to obtain Beal's consent to matters as to which the owner of the Membership Rights has the right of approval, Beal shall have no right to exercise any Membership Rights prior to the occurrence of an Event of Default (as such term is defined on Schedule I hereto). The Borrower will agree that upon the occurrence of an Event of Default and Beal's request, the Borrower will cancel the membership interest of CRE and issue a membership interest to Beal or to another third party approved by Beal who is authorized to be a member of Borrower.

Control of Cash. The Borrower shall be required to establish with a third party escrow agent or trustee selected by the Borrower and acceptable to Beal (the "Disbursement Agent") an escrow or trust account into which payments under the Transmission Service Agreement and all other payments on accounts receivable (except as noted below) will be deposited (the "Collection Account"). The Collection Account will be Collateral, Beal will have control over the Collection Account and the Borrower shall not have any right to make withdrawals therefrom. However, the Disbursement Agent shall be pre-authorized to make disbursements therefrom on a monthly basis: (i) to pay the amounts owed under the terms of the O&M Agreement (as defined below) in accordance with a budget therefor pre-approved by Beal (the "O&M Budget"); (ii) to pay the obligations under the Loan; and (iii) to make the distributions and deposits to the reserve accounts and/or other accounts described below in clause (i) of the Conditions section of this Term Sheet. Any amounts on deposit in bank accounts immediately prior to the closing, any cash or other funds to be released to the Borrower from Metropolitan Life Insurance Company upon the

286

payment of all outstanding loans to the Borrower and any account receivable owing as of the closing date and specifically scheduled by the Borrower shall not be required to be deposited into the Collection Account but may be used by the Borrower in the ordinary course of business for general corporate purposes (including distributions to its members). The O&M Budget for the period from the closing date to December 31, 2003 will be prepared by the Borrower and delivered to Beal prior to closing. Prior to each December 31 of each year, the Borrower will deliver an O&M Budget for the next calendar year to Beal for approval.

Substitute Collateral. In lieu of the foregoing Collateral, Beal agrees that the Borrower (or any assignee of the Borrower permitted by the assignment provisions set forth above) shall have the right to provide substitute collateral in the form of cash or cash equivalents which must be in an amount and of a type satisfactory to Beal in its sole discretion and must be held at Beal or other institution satisfactory to Beal in its sole discretion.

Sale of Membership Rights. CRE is considering the sale of its Membership Rights. Beal will agree to consider consenting to the sale at CRE's request. Beal's decision whether to consent to the sale will be made in its judgment, in good faith and based on such factors which, in its judgment, supports such decision. Beal's consent to any such sale will not be unreasonably withheld or delayed but in any case Beal will retain a first priority security interest in the ownership interest (in whatever form) of the Borrower.

Inspection and Appraisal. The System and other Collateral will be inspected and approved by Beal in its sole discretion. Beal has obtained an appraisal of the System from Appraisal Economics, Inc. dated as of January 31, 2003 reflecting a fair market value of \$38,000,000 for the System.

Excluded Property. The Collateral for the Loan shall not include the following assets or subsidiaries of the Borrower which are to be sold prior to the closing of the Loan and do not relate to the System:

- (1) ERCOT Power Supply (transmission services for McCulloch and Hunt-Collin);
- (2) New West Resources (Hdq Bldg, Map Resources, United Fuels Loan Agreements and stock);
- (3) Cap Star Resources (customer hook ups);
- (4) Cap Rock Utility Services (Farmersville Contract);
- (5) Certain interests in limited partnerships, corporations or other entities to be identified by the Borrower that are not necessary for the operation of the System and do not relate to the System, subject to Beal's approval thereof not to be unreasonably withheld; and

- (6) Amounts on deposit in Account Number 80966837 held at Western National Bank in Midland, Texas and any cash or other funds to be released to the Borrower from Metropolitan Life Insurance Company upon the payment of all outstanding loans to the Borrower and any account receivable owing as of the closing date.

CONSENT AND AGREEMENT:

CRE, the Borrower, Beal and CFC will have executed a Consent and Agreement on or prior to the closing date on terms which shall be mutually agreed to by all parties thereto. The Consent and Agreement shall provide for, among other things, the following:

- (a) the waiver of any existing defaults under the documentation between CFC and CRE and a release of CFC's liens in the assets sold to the Borrower under the Purchase Agreement;
- (b) a consent to the grant by CRE to Beal of a lien on the Membership Rights to secure the Loan and a release of CFC's liens therein; and
- (c) an agreement that the amounts paid by CRE under the Transmission Service Agreement shall constitute operating costs that shall be paid prior to any amounts owed by CRE to CFC.

USE OF PROCEEDS:

The proceeds of the Loan will be used: (i) to repay outstanding debt obligations of the Borrower owing to Metropolitan Life Insurance Company and Cap Rock Cooperative Finance Corp. (the "CRCFC") in connection with construction of the System; (ii) for the payment of transaction costs and related loan closing costs; (iii) to finance the purchase price payable by the Borrower under the Purchase Agreement (which purchase price will not exceed the depreciated original cost of the assets so acquired); (iv) to fully fund the Maintenance Reserve Fund and the Working Capital Reserve Fund (as such terms are defined below in clause (i) of the Conditions section of this Term Sheet) and (v) other general corporate purposes consistent with applicable law and regulations. CRCFC will use the proceeds from the debt repayment described above to repay amounts owed to CFC. CRE will use the proceeds received under the Purchase Agreement to repay amounts owed to CFC.

TRANSMISSION SERVICE AGREEMENT:

On or prior to the closing date, CRE shall have agreed to purchase electric transmission service from the Borrower pursuant to a Network Integration Transmission Service Agreement ("NITSA") that is consistent with Borrower's Open Access Transmission Tariff ("OATT"). On or prior to the closing date, FERC shall have approved (or accepted for filing) the termination of service (but not of the WP Tariff) to CRE under Borrower's WP Tariff. Subject to the agreement of the Borrower and Beal (which agreement by Beal will not be unreasonably withheld or delayed) that the necessary FERC application is unlikely to be protested, the Borrower shall have the right to seek to convert the OATT Tariff to a variable rate tariff on terms that have been proposed by the Borrower and consented to by Beal (such consent not to be unreasonably withheld or delayed) and that is otherwise based upon a debt coverage ratio sufficient to produce at least 1.2 times the debt

service obligations of the Borrower and that takes into account the Borrower's obligations under the O&M Agreement (as defined below) and its other operation and maintenance obligations. The first date when each of the following shall have occurred shall be the "Variable Rate Tariff Date": (i) FERC has approved or accepted for filing (without suspension and without the rates being made subject to refund) a variable rate tariff of the type described in the foregoing sentence for the OATT Tariff and (ii) a Transmission Service Agreement between CRE and the Borrower (and comparable service agreements between Borrower and each of its other transmission customers, if any) shall exist that by its terms provides the right for Borrower to implement the variable rate tariff upon FERC approval. The term "Transmission Service Agreement" as used herein at any time, shall mean the NITSA or any other transmission service agreement described in this section then in effect between the Borrower and CRE.

O&M AGREEMENT:

The Borrower and CRE will have executed an Operation, Maintenance and Administrative Services Agreement (the "O&M Agreement") on or prior to the closing date pursuant to which the Borrower has agreed to pay CRE for performing certain facility studies, operation, maintenance and facility upgrade and replacement services on terms which shall be mutually agreed to by Beal and the Borrower; it being understood that the Borrower shall also have the right to retain other qualified contractors from time to time to perform certain of the foregoing services (subject to the approval of Beal not to be unreasonably withheld or delayed where the costs of services exceed \$250,000). The O&M Agreement, along with any other required agreements, shall obligate qualified entities, which may include where appropriate Xcel or CRE, to provide all facilities studies, operation, maintenance and upgrades and replacements to the System and any other necessary transmission-related services not otherwise provided by Xcel (as defined below) or other qualified entity, in accordance with prudent utility practice and as needed for Borrower to: (i) comply with the terms of the Transmission Service Agreement, the OATT Tariff, and the operating agreement between CRE and Borrower under the OATT Tariff and (ii) provide all transmission services not provided by Xcel or other qualified entity that Borrower is obligated to provide to any other of its transmission customers. In the O&M Agreement, CRE shall agree to waive collection of any charges thereunder, or portions thereof, that the FERC determines the Borrower cannot allocate to its transmission customers.

The O&M Agreement will include provisions that allocate to CRE the liability for the cost of repair or replacement of wires, poles and related System assets to the extent that funds from amounts available in the Maintenance Reserve and insurance proceeds are insufficient to cover such costs.

INTERCONNECTION AGREEMENT:

The Borrower will have entered into a transmission Interconnection Agreement with the Southwest Power Pool or other appropriate transmission entity on terms acceptable to Beal in its reasonable business judgment.

ASSUMPTION AGREEMENT:

CRE, Cap Rock Electric Cooperative (the "Coop"), the Borrower and Beal shall enter into an assumption agreement pursuant to which the Coop will agree to assume

all the obligation of CRE under the Transmission Services Agreement, the O&M Agreement, the Purchase Agreement, the Consent and Agreement and all other documentation executed and delivered in connection with the Loan or the transactions contemplated hereby (the "Transaction Documents") in the event that (a) the transfer of the assets from the Coop to CRE was invalidated, (b) CRE's conversion to an investor owned utility is found unlawful, (c) CRE is found to be a void entity or (d) if CRE is not allowed to be a retail service provider in the place of the Coop. The Assumption Agreement will provide for the creation and the continuation of liens in the Membership Rights to secure the obligations of the Borrower in respect of the Loan to the same extent and in the same manner as the liens to be granted by CRE in such Membership Rights. Under the Assumption Agreement, CRE, the Borrower and the Coop will agree to comply with all conditions that the PUCT imposes to the approval of the transfer from the Coop to CRE of the certificate of convenience and necessity unless and until those conditions are eliminated or modified on appeal or otherwise. In the event that the conditions are modified, the Coop, CRE and the Borrower will comply with the modified conditions. The Coop and CRE also shall agree to concur in, support and cooperate with Borrower in obtaining acceptance by FERC of the assignment of the Transmission Service Agreement to the Coop under the circumstances described herein.

INSURANCE:

At its expense, the Borrower shall, to the extent it is commercially available for a reasonable premium, carry insurance with respect to the substations and transformers comprising the System for all reasonably insurable risks in an amount mutually agreed to by Beal and the Borrower and provide liability insurance in an amount reasonably acceptable to Beal. Certificates of insurance shall name Beal as an additional insured and loss payee and shall contain endorsements reasonably satisfactory to Beal.

CONDITIONS:

The obligations of Beal to make the Loan as contemplated hereby is subject to the following conditions precedent:

- (a) The Loan must be closed by the Termination Date unless mutually extended by Beal and the Borrower.
- (b) There is no default by Borrower under any of the terms and conditions of any of the Loan Documents (as defined below).
- (c) Beal must be provided with a report in form and substance acceptable to Beal from an independent engineer approved by Beal verifying that: (i) the System is in good working order and condition and (ii) the estimated annual costs associated with the regular maintenance required to keep the System in good working order and condition does not exceed \$3,800,000.
- (d) Environmental report(s) obtained by Beal at Borrower's expense must be received and accepted by Beal, in its sole discretion utilizing an environmental engineer approved by Beal which shall be mutually agreed to

by Beal and the Borrower. The environmental reports must be in form and substance acceptable to Beal in its sole discretion and must not disclose any material adverse environmental claim, liability or condition applicable to the Borrower or the System and no such claim, liability or condition shall otherwise exist.

(e) The Appraisal reports described in the Collateral section of this Term Sheet must be obtained by Beal.

(f) All governmental and third party approvals necessary or in the discretion of Beal, advisable in connection with the financing contemplated hereby and the continuing operations of the Borrower and CRE must have been obtained, must be in full force and effect and must be in form and substance acceptable to Beal, including without limitation, the following:

- (i) the approval by FERC of the transaction contemplated by the Purchase Agreement, the approval by FERC of the O&M Agreement under Section 203 of the Federal Power Act ("FPA"), and the acceptance for filing of the O&M Agreement under Section 205 of FPA;
- (ii) FERC approval of the termination of the old transmission service agreement between Borrower and CRE (but not the WP Tariff), acceptance for filing by FERC of a CRE transmission service agreement under the OATT Tariff;
- (iii) the approval by FERC of the Loan under Section 204 of the FPA;
- (iv) FERC approval of any other Transaction Document as applicable to ensure the validity and security of the Loan, to the extent FERC has jurisdiction and said documents are filed with FERC;
- (v) Evidence that CRE qualifies as an exempt intrastate holding company and has complied with all requirements for such exemption under the Public Utility Holding Company Act ("PUHCA");
- (vi) the approval by FERC of the transfer to Borrower of the portion of the System held in the name of Southwestern Public Service Company (now Xcel Energy Corp. and herein "Xcel") under Section 203 of the FPA; and
- (vii) the acceptance for filing of the assignment to CRE of the power purchase contract currently between Borrower and Xcel under Section 205 of FPA.

The term "approval" when used to describe action by the FERC shall include acceptance for filing by FERC, without suspension and without any applicable rates being made subject to refund.

(g) The execution and/or delivery to Beal of the following (all of which must be in form and substance satisfactory to Beal): (i) the NITSA, (ii) the O&M Agreement, (iii) the Purchase Agreement; (iv) the documentation relating to

the payoff of the obligations owed to Metropolitan Life Insurance Company, the transfer of legal title of the System from Xcel to Borrower, the transfer of all easements and rights of way included in the System from CRE to Borrower (and the delivery to Beal of all required consents to such transfer), the assignment to CRE of the power purchase contract between the Borrower and Xcel and the release of the Borrower by Xcel from all obligations and liabilities arising under the power purchase contract; and (v) such other documentation relating to any of the foregoing as Beal may reasonably request. Beal agrees that it will not unreasonably withhold or delay its approval of the form or substance of any of the foregoing documents.

(h) The execution and/or delivery to Beal of the following documentation (all of which must be in form and substance acceptable to Beal and all such documentation herein referred to as the "Loan Documents"):

(i) Primary Loan Documents. A loan agreement, a promissory note and the Coop Assumption Agreement described above in the Assumption Agreement section of this Term Sheet;

(ii) Primary Collateral Documents. The following documents covering and relating to the Collateral: a security agreement; a pledge agreement; Deeds of Trust; financing statements; and tax, UCC and judgment lien searches;

(iii) Third Party Collateral Documents. (A) The Consent and Agreement; (B) a consent and estoppel agreement executed by CRE relating to Beal's liens on the Transaction Documents; control agreements from all parties holding deposit, commodity or security accounts included in the Collateral; (C) consent, subordination and estoppel agreements from all lessors who own real property that is leased by the Borrower on which the System substations (the "Leased Substations") are located (Borrower will confirm that the only leased real property involved in the System are the Leased Substations); and (D) consents to assignment from the applicable fee owners of the property relating to any easement or right of way that is included in the System but that is not assignable; provided, that if the Borrower is unable to obtain such documents by the closing date, and so long as no disruption of service by Borrower is pending or threatened as a result of Borrower not being able to obtain any such assignment or consent, Beal agrees to waive the requirement to deliver such documents as a condition to closing and the Borrower shall be obligated under the Loan Documents to use commercially reasonable efforts to obtain such documents as promptly as reasonably practicable and to institute appropriate legal proceedings, if requested by Beal, to obtain declaratory relief and/or to exercise its right of eminent domain to cause such

unassignable easements to be assigned to the Borrower or to obtain new easements acceptable to Beal to allow operation of the System as currently operated if such documents are not obtained within 120 days after the closing date of the Loan;

- (iv) Real Property Documents. In addition to the appraisals and environmental reports described above, all of the following relating to all real property included in the System (including all fee owned and leasehold property included in the System): Access to copies of the easements and rights of way included in the System; copies of all the title exception documents encumbering any of the System substations (the "Substations"); evidence that the applicable premiums have been paid and that the applicable title insurance company is committed to issue title insurance policies relating to each Substation in a form, amount and issued by a title insurance company, in each case acceptable to Beal; and current surveys of each Substation certified to Beal by a registered public surveyor acceptable to Beal, showing (i) a metes and bounds description of such property, (ii) all recorded or visible boundary lines, building locations, locations of utilities, easements, rights-of-way, rights of access, building or set-back lines, dedications, and natural and manufactured objects affecting such property, (iii) any encroachments upon or protrusions from the such property, (iv) any area federally designated as a flood hazard, and (v) such other matters as Beal may reasonably require; and
- (v) Corporate Documents. Articles of incorporation, bylaws, resolutions, certificates of secretary and such other evidence of the existence, good standing and authority of Borrower, CRE, the Coop and Xcel.

The Loan Documents to which the Borrower is a party shall contain the covenants, representations, warranties, conditions, yield protection provisions, indemnity and events of default described on Schedule 1 hereto and such other provisions not listed thereon that are otherwise satisfactory to Beal and the Borrower.

- (i) The Loan Documents must contain provisions pursuant to which the Borrower agrees that:
 - (i) Limitation on Scope of Business. The Borrower will not engage in any business other than the transactions contemplated by the Transaction Documents and will not voluntarily join any Regional Transmission Organization unless the tariff payments to the Borrower are comparable to those charged pursuant to the Transmission Service Agreement and any other comparable service agreements between Borrower and other transmission customers.

- (ii) Reserve Funds. The Borrower will be required to establish and maintain the following:

(A) Debt Reserve Fund. A debt service reserve fund (herein so called) in a minimum amount equal at any time to the lesser of: (1) an amount equal to the debt service (both principal and interest) payable on the Loan for a period of 2 years or (2) the aggregate amount of remaining principal and interest installments due under the Loan; provided that (x) the Debt Reserve Fund will not be funded at closing but will be funded over time as described below until the Variable Rate Tariff Date; and (y) after the Variable Rate Tariff Date and as long as FERC shall not have modified the tariff then applicable to the Borrower in a manner that would reasonably be expected, as reasonably determined by Beal, to have a Material Adverse Effect, the Debt Reserve Fund will no longer be required to be funded but the amount then held therein will continue to be held as Collateral for the Loan and be available to make the regularly scheduled payments when due thereunder if Borrower does not otherwise have sufficient funds to make the payment (it being understood for the avoidance of doubt that there shall be no obligation to replenish any amounts withdrawn from the Debt Service Reserve Fund at any time after the Variable Rate Tariff Date unless FERC shall have modified the tariff then applicable to the Borrower in a manner that would reasonably be expected, as reasonably determined by Beal, to have a Material Adverse Effect);

(B) Maintenance Reserve Fund. A maintenance reserve fund (herein so called) shall be established on the closing date in an amount equal to \$5,500,000; and

(c) Working Capital Reserve Fund. A working capital reserve fund (herein so called) in a minimum amount equal to \$500,000.

Reserve Accounts. Each of the foregoing reserve funds shall be held at an institution mutually agreeable to the Borrower and Beal, shall be held in such segregated accounts and shall be invested in such permitted investments as Beal may approve in its reasonable discretion. The reserve funds and the related accounts shall be Collateral and Beal shall be granted control over all the accounts in which reserve funds are held. The Borrower shall have no right to make any withdrawals from any such accounts except that prior to a default, amounts in such accounts may be withdrawn by the Borrower as described below in the Release of Reserve section of this Term Sheet.

Funding Reserves. The foregoing reserve funds shall be funded as follows:

- (i) The Maintenance Reserve Fund and the Working Capital Reserve Fund shall be fully funded from Loan proceeds as described in the Use of Proceeds Section of this Term Sheet;
- (ii) On the 15th day of each month when no Event of Default exists, the Borrower shall use its Excess Cash Flow in the following order of priority and for the follows purposes:
 - (A) First to fund any deficiency in the Working Capital Reserve Fund;
 - (B) Second to fund any deficiency of less than \$3,000,000 in the Maintenance Reserve Fund;
 - (C) Third up to the next \$20,833 shall be used to fund any deficiency in the Debt Service Reserve Fund;
 - (D) Fourth to make payments under any Subordinated Reserve Loans (as hereafter defined);
 - (E) Fifth up to the next \$20,833 may be retained by the Borrower and used for general corporate purposes;
 - (F) Sixth to fund any further deficiency in the Debt Reserve Fund; and
 - (G) Seventh any remaining amounts may be retained by the Borrower and used for general corporate purposes (including for distributions to its members).

The term "Excess Cash Flow" will be calculated as of the end of each month for the month then ended and shall be defined to mean the total of the following for such period, calculated without duplication: (a) the total amount received under the terms of the Transmission Service Agreement plus any other accounts receivable of the Borrower; minus (b) the total amount paid to CRE under the O&M Agreement or directly paid by the Borrower in respect of the operation and maintenance costs for the System; minus (c) scheduled amortization of indebtedness actually paid; minus (d) property taxes paid.

Release of Reserves. Funds in the foregoing reserve funds may be used as follows:

- (i) Funds from the Debt Service Reserve Fund shall be held as Collateral for the Loan and shall be available to make the regularly scheduled payments when due thereunder if Borrower does not otherwise have sufficient funds to make the payment except that

amounts held in the Debt Service Reserve Fund in excess of the amounts required to be deposited therein may be released and used to make the payments then coming due;

- (ii) Funds on deposit in the Maintenance Reserve Fund may be used from time to time to pay: (A) the costs associated with the extraordinary maintenance or repair required to keep the System in good working order and condition, and (B) the costs of construction for improvements to the System in an aggregate amount not to exceed \$2,500,000. Notwithstanding the foregoing, if the Borrower shall have received a tariff approved by FERC that will allow the Borrower to recoup the costs of construction for improvements to the System, such costs of construction shall not be included in the computation of the foregoing \$2,500,000 basket. The Loan Documents (as defined below) shall provide that the Maintenance Reserve Funds shall be released to the Borrower as needed to pay the cost of repair or construction as and when incurred in the same manner as construction advances are typically disbursed; provided that if the cost of repair or construction relating to a single project is less than \$250,000, the total amount may be released to the Borrower in a single sum so long as the Borrower has satisfied all conditions required for advances under the Loan Documents; and
- (iii) Funds from the Working Capital Reserve Fund may be used by the Borrower to fund the Borrower's working capital in the ordinary course of business when the Borrower otherwise does not have sufficient funds for that purpose.

FERC Reduction of Minimum Amount. In the event that FERC shall have made a determination that the amounts held in the reserve funds described above are excessive, then the minimum amounts required by the Loan Documents to be held therein shall be reduced to the amounts allowed by FERC and the amounts then on deposit in the related accounts in excess of the FERC allowed amounts shall be used to make a principal repayment on the Loan (without regard to the prepayment provisions described above).

Subordinated Reserve Loans. The Loan Documents shall include a provision pursuant to which CRE shall commit to make subordinated loans to the Borrower (the "Subordinated Reserve Loans") if the funds otherwise available to the Borrower (in the Maintenance Reserve Fund, the Working Capital Reserve Fund or otherwise) are not sufficient to fully pay the cost of any repair required to keep the System in good operating condition. The Subordinated Reserve Loans shall be unsecured and subordinated in right of payment to the prior payment in full of the Loans (except as provided above with respect to the monthly distributions of Excess Cash Flow). The Subordinated Reserve Loans shall mature after the Loan, shall be payable only from the monthly distributions of Excess Cash Flow described above

and shall accrue interest at a rate no greater than 12%.

- (j) The Loan Documents shall include the obligation for the Borrower to deliver legal opinions, addressing, among other customary matters, that: (a) CRE qualifies as an exempt intrastate holding company and has complied with all requirements for such exemption under the PUHCA; (b) CRE's holding of its membership interest in the Borrower is permitted under PUHCA; and (c) all FERC and PUHCA requirements, if any, necessary for the Borrower and CRE to enter into and to perform their respective obligations under the Transaction Documents have been met. The PUHCA opinion will be rendered by Milbank, Tweed, Hadley & McCloy, LLP, the FERC opinion will be rendered by Griggs and Adler, P.C., and other opinions with respect to the Borrower's, CRE's and the Coop's existence, good standing, and authorization to enter into the transactions contemplated hereby, such other corporate authorization or organizational matters as Beal may request, the capitalization of the Borrower, Texas law governed documents, the creation and perfection of Liens, and the Borrower possessing the right of eminent domain will be rendered by Ronnie Lyons.
- (k) Beal must be provided evidence that the organizational documents applicable to the Borrower will prohibit its member from commencing a voluntary bankruptcy proceeding involving the Borrower and must be on other terms that are satisfactory to Beal.
- (l) All representations and warranties contained in the Loan Documents must be true and correct in all material respects and Beal shall not have become aware after the date hereof of any information or other matter affecting the Borrower or the transactions contemplated hereby which is inconsistent in a material and adverse manner with any such information or other matter disclosed to Beal prior to the date hereof.
- (m) Beal must be provided with any other data or information that Beal reasonably determines it needs to underwrite the Loan.
- (n) No material adverse legislative or regulatory developments affecting CRE, the Borrower or their respective businesses shall have occurred, no material casualty or other physical loss effecting the System shall have occurred and no other material adverse change shall have occurred in the business, assets, or condition (financial or otherwise) of CRE or the Borrower. No material litigation affecting CRE, the Borrower or their respective businesses other than the litigation disclosed to Beal in writing prior to the closing date shall have occurred.
- (o) The recordation of all deeds of trust, financing statements and releases of prior lenders or existing lienholder (except with respect to permitted liens) so as to create first priority perfected liens and security interests (subject to permitted liens) in the Collateral to be provided to Beal.

- (p) Beal shall have received all fees required to be paid, and all expenses for which invoices have been presented, on or before the closing date.
- (q) Copies of all casualty insurance policies covering the Substations, together with certificates of insurance relating thereto showing Beal as loss payee and additional insured shall have been delivered to Beal.
- (r) A closing certificate signed by the chief executive officer of the Borrower certifying, among other things, to: (i) the sources and uses of funds; (ii) no default then existing; and (iii) the satisfaction of the conditions set forth in clause (l) (i.e., truth of representations and warranties) and clause (n) (i.e., no material adverse change) above.
- (s) The Loan Documents shall include the obligation for the Borrower, promptly upon the submission of an application by any third party to the Borrower for service on the System, to file with FERC the modifications to Borrower's OATT to (a) correct the identification of the control area operator and (b) remove the "not to exceed charges" charge specifications for ancillary services.
- (t) The Borrower shall have delivered and Beal shall have approved the initial O&M Budget.
- (u) All proceedings taken in connection with the transactions contemplated hereby, all documentation incident thereto and legal matters relating thereto shall be satisfactory to Beal in its reasonable discretion.
- (v) Such other conditions precedent as are customary in transactions similar to the transactions contemplated hereby

GOVERNING LAW:

The Loan and the documents evidencing and securing same are to be governed by Texas law.

Schedule 1
to
New Corp Resources Electric Cooperative, Inc.
Term Sheet

Detail of Terms of Loan Documents

The Loan Documents shall contain representations, warranties, covenants and events of default customary for financings of this type and other terms deemed appropriate by Beal, including, without limitation, those specifically set forth in the Term Sheet and the following which shall be included in the Loan Documents on a basis not inconsistent with the Term Sheet :

Representations and Warranties:

Representations and warranties as to the following applicable to the Borrower, the Coop and CRE subject, in certain instances, to materiality qualifiers approved by Beal: Financial statements; absence of undisclosed liabilities; no material adverse change; corporate existence; compliance with law and agreements except for such noncompliance that could not reasonably be expected to have, as reasonably determined by Beal, a Material Adverse Effect; corporate power and authority; enforceability of Transaction Documents; approvals and consents; execution, delivery and performance having no conflict with law or contractual obligations; no material litigation (other than as disclosed to Beal); no default under material obligations; ownership and condition of property; taxes; use of proceeds; insurance; liens; indebtedness; intellectual property; no burdensome restrictions; Federal Reserve regulations; ERISA; Investment Company Act; subsidiaries; capitalization of the Borrower; environmental matters; accuracy of disclosure; the Transaction Documents and the transactions contemplated thereby; location of Collateral; third parties in possession of Collateral; disclosure of deposit, commodity and security accounts; other typical collateral related disclosures; as to the easements and rights of way necessary for the operation of the System; that Borrower has the easements, rights of way and other property rights as are necessary for the operation and maintenance of the System; the status of the assignability of the easements and rights of way included in the System; and that the Borrower has the power to condemn private property.

Affirmative Covenants:

Affirmative Covenants relating to the following applicable to the Borrower, subject, in certain instances to materiality qualifiers approved by Beal: Delivery of the unaudited quarterly and annual financial statements of Borrower that Borrower files with FERC, audited consolidated annual and consolidated quarterly financial statements for CRE, accountants' letters, officers' certificates and other information requested; payment of taxes, claims and other obligations subject to customary contest rights; continuation of business and maintenance of existence and material rights and privileges; compliance with laws and contractual obligations except for such noncompliance that could not reasonably be expected to have, as reasonably determined by Beal, a Material Adverse Effect; maintenance of property; use of proceeds; delivery to Beal of condemnation and insurance proceeds with provisions to allow the disbursement of the same to the Borrower if no Event of Default exists with amounts in excess of \$250,000 being released as the costs of repair and rebuilding are incurred; maintenance of books and records; right of Beal to inspect property and books and records; notices of defaults, litigation and other material events; further assurances; maintenance of the corporate separateness of Borrower; and material compliance with environmental laws except for such noncompliance that could not reasonably be expected to have, as reasonably determined by Beal, a Material Adverse Effect.