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Kansas Corporation Commission
/S/ Susan K. Duffy

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS
DIRECT TESTIMONY OF**

**COLEEN M. WELLS
VICE PRESIDENT, FINANCE & CONTROLLER**

KANSAS ELECTRIC POWER COOPERATIVE, INC.

DOCKET NO. 08-KEPE-597-RTS

Q. Please state your name and business address.

A. My name is Coleen M. Wells. My business address is Kansas Electric Power Cooperative, Inc. (KEPCo), 600 S.W. Corporate View, Topeka, Kansas 66615.

Q. Who is your employer and what is your title?

A. I am the Vice President of Finance and Controller for KEPCo.

Q. What is your educational and professional background?

A. I graduated from Kansas State University with a Bachelor of Science degree in Business Administration with a major in Accounting in May 1986. I began my career in public accounting, and have twenty-one years experience in accounting and management, of which thirteen years have been with public utilities. I am licensed to practice as a CPA in the State of Kansas.

Q. What are your responsibilities as KEPCo's Vice President of Finance and Controller?

A. As Vice President of Finance and Controller, I am responsible for development and administration of effective financing programs and accounting procedures and reports that meet the requirements of the Members, management, financial institutions, and jurisdictional agencies.

Q. Have you previously filed testimony with the State Corporation Commission of Kansas?

A. Yes. I prepared testimony supporting Attachment A and reviewed and approved the statements concerning the methodology KEPCo used in calculating its proposed contribution rate in KEPCo's filing for Approval of Changes in the Accrual and Funding of Wolf Creek Generating Station Decommissioning Costs and Approval of Amendments to KEPCo's Trust in Docket No. 07-KEPE-003-MIS.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present accounting data to support KEPCo's historical test period expenses and pro-forma adjustments.

Q. What historic test period is KEPCo using?

A. The twelve months ending December 31, 2006.

Q. Would you identify the schedules that you are sponsoring?

A. Yes, I am sponsoring all schedules in Sections 3, 4, 5, 7, 8, 9, 10, 11, 13, and 16, except for Schedules 4 and 5 of Section 9.

Section 3-Rate Base

Q. Please explain the schedule included in Section 3.

A. Schedule 1 shows the Rate of Return, Times Interest Earned Ratio (TIER) and Debt Service Coverage Ratio (DSC) at the present and proposed rates in the same format as the Statement of Operations presented in Section 9.

Q. Why does KEPCo not include any working capital components in its calculation of rate base?

A. The approach to ratemaking for KEPCo has historically been based on a requested Times Interest Earned Ratio, an interest coverage approach. Per the Stipulation and Agreement filed November 29, 2001, KCC Staff recommended that DSC should become the focus for regulating the rates of KEPCo due to the change in the method of recovering depreciation on the Wolf Creek investment. Therefore, the calculation of working capital that would be included in rate base is excluded.

Section 4 - Plant Investments

Q. Please explain the schedules included in Section 4.

A. Section 4 is a compilation of year-end balances for KEPCo's Utility Plant in Service accounts for the years ending December 31, 2006, December 31, 2005, and December 31, 2004. Schedule 1 is a summary of all the Plant in Service, Construction Work In Progress

(CWIP), and Nuclear Fuel accounts at the functional account level. Schedule 2 illustrates, for the same years, the Plant in Service accounts at the Federal Energy Regulatory Commission (FERC) primary account level. Schedule 3 illustrates KEPCo's investment in CWIP for the above mentioned years, and Schedule 4 illustrates nuclear fuel account balances for the same years.

Section 5 - Accumulated Provision for Depreciation

Q. Please describe Section 5.

A. Section 5 has one schedule which illustrates the actual accumulated provision for depreciation and amortization for each of the three calendar years ending December 31, 2004-2006.

Section 6 - Working Capital

Q. Please explain why Section 6 has no schedules.

A. As discussed previously, KEPCo's rates are determined using a debt service coverage requirement, as opposed to a rate of return approach. Therefore, working capital is not relevant.

Section 7 - Capital and Cost of Money

Q. Please describe the schedules that are in Section 7.

A. Section 7 includes information relating to KEPCo's capital structure on Schedule 1 and KEPCo's cost of long-term debt on Schedule 2. Schedules 3-7 show detailed information of the components of KEPCo's long-term debt. Schedule 8 indicates the TIER and DSC ratios for each of the three calendar years ending December 31, 2004-2006.

Q. Have any of the components of KEPCo's debt structure changed since its last rate application?

A. Yes. KEPCo has incurred additional debt from the financing of its Sharpe Generating Station in 2002 and a Wolf Creek Capital Additions Loan in 2007. Please see Section 7, Schedule 6 for the Sharpe Loan. Section 7, Schedule 7 shows the debt schedule for the new Wolf Creek Capital Additions Loan. The interest for the Wolf Creek Capital Additions Loan for 2007 is included in the interest expense adjustment number 8, in Section 9, Schedule 10.

Section 8 - Financial and Operating Data

Q. Ms. Wells, you indicated that you were sponsoring the schedules in Section 8. Please describe those schedules.

A. Schedule 1 is KEPCo's balance sheet by primary account for the test year and the two preceding years. Schedule 2 is the comparative income statement for the same years. Schedule 3 is the statement of operating revenues for the same years, and Schedule 4 shows KEPCo's operating expenses by primary account. Schedule 5 is a summary of KEPCo's operations and maintenance expenses by functional account for the above mentioned years. Schedule 6 is a summary of KEPCo operating statistics for member revenues, and Schedule 7 is a summary of payroll distribution for the same years.

Section 9 - Income Statements

Q. Ms. Wells, you indicated that you are sponsoring a portion of the schedules in Section 9. Which schedules in Section 9 are you sponsoring?

A. I am sponsoring Schedules 1-3, and Schedules 6-12. Dr. Robert D. Bowser is sponsoring Schedules 4 and 5.

Q. Please describe Schedule 1 in Section 9.

A. Schedule 1 is a multi-column worksheet that shows summary information regarding KEPCo's test year margins, pro forma adjustments to those margins, TIER and DSC ratios and the requested rate increase. Column 1 is the test year results of operations by primary account for the operations of Kansas Electric Power Cooperative, Inc. only. The revenues and expenses from KEPCo's subsidiary, KEPCo Services Inc., are not included in the Column 1 test year numbers. Column 2 is a summary from Schedule 2 of the pro forma adjustments that are necessary to eliminate or normalize nonrecurring and unusual items, and reflect known and determinable changes in revenue and expenses. Column 3 is the summarization of Columns 1 and 2 to get to an Adjusted Regulated Test Year total of revenues, expenses, and margins. Column 4 reflects the rate increase requested. Column 5 sums Columns 3 and 4 to arrive at the Adjusted Regulated Test Year After Increase. Column 6 includes the difference between the regulated margin calculation, which does not include interest expense on disallowed plant, and the actual book expenses, which include the interest expense recorded. I will discuss this later in my testimony. Column 7 sums columns 5 and 6 to arrive at the Adjusted Book Net Test Year revenues, expenses, and margin.

Q. Are any of the expenses associated with the operations of KEPCo's subsidiary, KSI, included in the test year numbers?

A. No. KSI has a separate trial balance in our accounting system that produces its own set of revenues and expenses. All expenses that are generated as a result of the direct operations of KSI are paid for and expensed through the operations of the subsidiary.

Q. Does KEPCo share employees or office space with KSI?

A. Yes.

Q. Is the cost associated with the employees and office space provided to KSI charged to KSI?

A. Yes. KEPCo allocates all costs to KSI associated with the services provided to KIS in accordance with the allocation formulas approved by the KEPCo and KSI Boards of Trustees.

Q. What are the allocation formulas?

A. For labor, KEPCo charges the total cost of all labor and associated overheads to KSI based upon the amount of time that employees charge to KSI. This includes time spent on billable projects by engineers and their support staff, and a portion of KEPCo's management, accounting, information services, and legal staff. For other expenses that are incurred as a result of KSI sharing office space, KEPCo allocates cost to KSI based on a calculation of full-time hours charged to KSI compared to actual full-time hours incurred by all KEPCo employees.

Q. How did KEPCo determine the amount of increase to request in Column 4 of Schedule 1 of Section 9?

A KEPCo's Board of Trustees requested that a study be conducted by J. Bertram Solomon of GDS Associates, Inc. to recommend an appropriate DSC to be used in determining the needed margin for this rate case. The recommendations that were approved by the Board of Trustees as a result of the study include a recommended DSC target of 1.2 with an appropriate demand-related purchased power cost adjustment mechanism. The calculation of the increase in Column 4 is the amount of revenue needed to produce a 1.2 DSC after all other adjustments, as calculated in Column 7. Please see the testimony of Mr. Solomon for a complete discussion of the 2007

Financial Plan and Analysis of Margin Requirements, and the resulting study, which is included in Section 14.

Q. What are the TIER and DSC requirements of KEPCo's Mortgage with the Rural Utilities Service (RUS) and National Rural Utilities Cooperative Finance Corporation (CFC)?

A. Section 4.15 of the Mortgage, Exhibit CMW-1, requires that KEPCo maintain, on an annual basis, an average TIER not less than 1.05 and an average DSC ratio not less than 1.0. The averages are calculated by using the two largest TIER's and the two largest DSC's from the three most recent calendar years.

Q. Has KEPCo fulfilled the TIER and DSC requirements over the last three years?

A. Yes, however, in 2006 KEPCo had a DSC below 1.0. In 2007, the forecast shows a DSC less than 1.0. If KEPCo does not receive an increase in rates that generates a DSC sufficient to average 1.0 with either KEPCo's 2006 DSC of .96 or KEPCo's 2007 DSC, KEPCo will not be in compliance with its coverage requirements in its mortgage with RUS and CFC for 2008.

Q. Please describe Schedule 2 in Section 9.

A. Schedule 2 is a multi-column work sheet formatted with accounts as in Schedule 1. Shown in each of the succeeding columns are KEPCo's individual pro forma adjustments categorized by FERC account number. At the bottom of each column is a reference to a supporting schedule in Section 9 showing the basis for the pro forma adjustment. KEPCo is proposing ten different pro forma adjustments in the rate application.

Section 9, Schedule 3, Adjustment No. 1

Q. Please explain Schedule 3 of Section 9.

A. KEPCo's cash position has significantly decreased due to several factors that are discussed in the testimony of Stephen Parr, and discussed in the 2007 Financial Plan and Analysis of Margin Requirements, Section 14. Due to the decrease in cash reserves available to invest, KEPCo has proposed an adjustment to decrease the amount of interest income earned from those investments. The pro forma adjustment is calculated on page 2 of Schedule 4. First, the difference between the test year monthly cash balances and the 2007 actual/forecast cash balances was calculated. Interest income was then calculated by multiplying this difference by the actual earnings rate from investments in 2007 as reported monthly to the Board of Trustees.

Section 9, Schedule 6, Adjustment No. 4

Q. Please explain Schedule 6 of Section 9.

A. KEPCo receives an annual refund in premiums paid to the Nuclear Electric Insurance Limited (NEIL) for insurance coverage on Wolf

Creek. Since these refunds vary, KEPCo uses an average of the past 5 years' refunds for inclusion in the test year expenses.

Section 9, Schedule 7, Adjustment No. 5

Q. Please explain Schedule 7 of Section 9.

A. WCNOC disposes of all classes of its low-level radioactive waste at repositories. The Low-Level Radioactive Waste Policy Amendment Act of 1985 mandated that various states, individually or through interstate compacts, develop alternative disposal facilities. WCNOC and the owners of five other nuclear units provided preconstruction financing for a new disposal facility to be developed in the state of Nebraska. The facility was never developed and as a result, a lawsuit was filed in federal court by WCNOC and the Compact Commission. The court entered a judgment of $151.4 million for the plaintiffs. WCNOC received a portion of the judgment in 2005 and 2006. KEPCo's share was $99,120 in 2006. This is a non-recurring credit, and has been removed from KEPCo's Test Year.

Section 9, Schedule 8, Adjustment No. 6

Q. Please explain Schedule 8 of Section 9.

A. 2006 was the final year for amortization of the investment in the NRTC 220 MHz licenses. These licenses are used for KEPCo's SCADA/EMS system.

Section 9, Schedule 9, Adjustment No. 7

Q. Please explain Schedule 9 of Section 9.

A. Unamortized debt issue costs relate to the issuance and fees for re-pricing the Federal Financing Bank (FFB) debt. These costs are being amortized using the effective interest method over the remaining life of the bonds and notes. Adjustments were made to debt issue amortization costs to reflect the amount of amortization that will be incurred in 2007.

Section 9, Schedule 10, Adjustment No. 8

Q. Please explain Schedule 10 of Section 9.

A. The interest cost for all debt has been adjusted to reflect the amount of interest that will be incurred in 2007 based on the current interest rates and principal amounts outstanding.

Section 9, Schedule 11, Adjustment No. 9

Q. Please explain Schedule 11 of Section 9.

A. The pro forma adjustment in Schedule 11 adjusts the labor, benefits and taxes charged to KEPCo operations based on 2007 projected costs.

Section 9, Schedule 12, Adjustment No. 10

Q. Please explain Schedule 12 of Section 9.

A. In Docket No. 151,191-U, the Commission ordered that the carrying charges on imprudently incurred plant costs cannot be recovered as an operating expense, due to Kansas Statute 66-128e, which states in part:

> "...the Commission shall exclude that portion of the carrying or finance charges incurred after the date of its finding, and no part of the carrying or finance costs excluded shall ever be or become part of the reasonable value of public utility property so used and required to be used."

Therefore, this adjustment reduces the interest expense in the test year by the carrying costs associated with the imprudently incurred Wolf Creek Plant costs. KEPCo is requesting, however, that the Commission allow these same costs to be recovered through excess margins, as first ordered in Docket No. 151,191-U. As the Commission recognized in prior KEPCo cases, the cooperative members are the ratepayers as well as the stakeholders of a generation and transmission cooperative. Therefore, as stated in the Commission order in Docket No. 151,191-U, "this component of the total margin should be addressed in future rate cases to allow KEPCo the opportunity to earn a margin which will be adequate to recover the working capital necessary to service the debt financing the imprudent Wolf Creek Costs."

Section 10 - Depreciation and Amortization

Q. Ms. Wells, you indicated that you were sponsoring the schedules in Section 10. Could you please describe those schedules?

A. Schedule 1 of Section 10 is a summary of depreciation and amortization of Utility Plant in Service, Disallowed Plant and Deferred Assets, and amortization of Early Call/Refinancing Premiums. Column 1 indicates the test year ending balance of gross plant by categories that KEPCo utilizes to determine the depreciation. Column 2 shows the accumulated depreciation and amortization, Column 3 is the net plant balance, Column 4 details the test year depreciation and amortization, and Column 5 shows the average effective rate of depreciation/amortization.

The WCGS assets are categorized into intangible plant, depreciable plant and land. KEPCo assets are shown as general plant and intangible plant. Total depreciable plant is detailed in Section 4, Schedule 2.

WCGS intangible plant represents capitalized software costs, which is amortized on a straight-line basis over a 5-year life. WCGS depreciable plant is depreciated using a straight-line methodology over the remaining useful life of Wolf Creek (which was extended an additional twenty years to 2045, per Docket No. 01-KEPE-1106-RTS).

KEPCo general plant assets are depreciated using a straight-line method based on estimated useful lives of 2-10 years. KEPCo intangible plant represents an investment in wireless NRTC 220 MHz licenses that was amortized over a 5-year life, with 2006 being the final year.

Disallowed plant represents the amount of Wolf Creek plant disallowed in Docket No. 151,191-U. The amortization of the disallowed plant is calculated utilizing a straight line methodology over the agreed upon remaining depreciable life per Docket No. 01-KEPE-1106-RTS. Schedule 3 shows the calculation of this amortization.

Lines 9 and 10 of Section 10, Schedule 1 are regulatory assets that were created due to a change in accounting treatment of depreciation/amortization that were ordered by the Commission in Docket No. 01-KEPE-1106-RTS. Per the Stipulation and Agreement dated November 29, 2001, prior use of the sinking fund method of depreciation/amortization had produced an under-recovery through rates by the amount of the difference between the depreciation and amortization recovered using the sinking fund method of calculation versus the amount that would have been recovered if a straight line methodology had been utilized. That amount of $46,948,793 for depreciation and $6,505,719 for amortization needs to be recovered from KEPCo's ratepayers in order to allow KEPCo to make debt service payments, and should be regarded as a regulatory asset because of the change in accounting treatment. It was also agreed that a 15-year straight line amortization of these amounts should be used. Schedule 2 shows the calculation of this amortization.

Asset Retirement Obligation is a regulatory asset that was created due to Financial Accounting Standard (FAS) 143, Accounting for Asset Retirement Obligations, which was adopted by KEPCo on January 1, 2003. FAS 143 provides accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets. Under the standard, these liabilities will be recognized at fair value as incurred and capitalized and depreciated over the appropriate period as part of the costs of the related tangible long-lived assets. KEPCo recognized and estimated the liability for its share of the estimated cost to decommission Wolf Creek, based on the present value of the asset retirement obligation KEPCo incurred at the time it was placed into service in 1985. The asset retirement obligation is adjusted to reflect the most recent costs, whenever there is a decommissioning cost study filed. The regulatory asset for $4.1 million at the end of the test year, represents the amount of the Wolf Creek asset retirement obligation and accumulated depreciation. Schedule 4 shows the accounting for the asset retirement obligation.

KEPCo includes in Other Deferred Charges, the early call premium resulting from the re-financings of the Grantor Trust and fees for re-pricing the Federal Financing Bank (FFB) debt. These early call premiums are amortized using the effective interest method over the remaining life of the new agreements. Schedule 5 shows the calculation of this amortization.

Section 11 - Taxes

Q. Please describe the information included in Section 11 Schedule 1.

A. This schedule is a summary of taxes expensed by KEPCo in the test year ended December 31, 2006. Because KEPCo is a non-profit cooperative entity, it is exempt from income taxes under IRC 501c (12), as long as 85% of its revenues are obtained from member sources; therefore no income tax expense is reflected in the test year.

Section 13 - Annual Report

Q. Please describe the report included in Section 13.

A. Section 13 contains KEPCo's annual report for 2006.

Section 16 - Audited Financial Statements

Q. Please describe the information included in Section 16.

A. The 2006 audit report prepared by BKD, LLP has been included in this section.

Q. Does this conclude your testimony?

A. Yes.

KANSAS 54 "D8" KEPCo

CONSOLIDATED MORTGAGE, SECURITY AGREEMENT AND FINANCING STATEMENT

Made By And Among

KANSAS ELECTRIC POWER COOPERATIVE, INC.
600 Southwest Corporate View
Topeka, Kansas 66615,
Mortgagor and Debtor,

and
UNITED STATES OF AMERICA
Rural Utilities Service
Washington, D. C. 20250-1500,
Mortgagee and Secured Party,

and
NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION
2201 Cooperative Way
Herndon, Virginia 20171-3025
Mortgagee and Secured Party.

Dated as of February 1, 2007

- **THIS INSTRUMENT GRANTS A SECURITY INTEREST IN A TRANSMITTING UTILITY.**
- **THE DEBTOR AS MORTGAGOR IS A TRANSMITTING UTILITY.**
- **THIS INSTRUMENT CONTAINS PROVISIONS THAT COVER REAL AND PERSONAL PROPERTY, AFTER-ACQUIRED PROPERTY, FIXTURES, PROCEEDS, FUTURE ADVANCES AND FUTURE OBLIGATIONS WHICH ARE SECURED BY THIS INSTRUMENT.**
- **FUTURE ADVANCES AND FUTURE OBLIGATIONS ARE SECURED BY THIS INSTRUMENT.**
- **THE TYPES OF PROPERTY COVERED BY THIS INSTRUMENT ARE DESCRIBED ON PAGES 9 THROUGH 11 AND APPENDIX B.**
- **THE ADDRESSES AND THE SIGNATURES OF THE PARTIES TO THIS INSTRUMENT ARE STATED ON PAGES 33 and 34.**
- **THIS INSTRUMENT WAS DRAFTED BY THE RURAL UTILITIES DIVISION, OFFICE OF THE GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C. 20250-1400**

MORTGAGOR'S ORGANIZATIONAL IDENTIFICATION NUMBER: 392001

No. _____

indentures of mortgage, mortgages and deeds of trust, and financing statements and to preserve and protect the rights and remedies of the Mortgagees and the Noteholders hereunder to all property comprising the Mortgaged Property.

(b) In the event that the Mortgagor suffers in the future a deficit in net income, as determined in accordance with Accounting Requirements, for any fiscal year while any of the Notes are outstanding, the Mortgagor will at any time or times upon written demand of any Mortgagee make, execute, acknowledge and deliver or cause to be made, executed, acknowledged and delivered all such further and supplemental indentures of mortgage, mortgages, security agreements, financing statements, instruments and conveyances, and take or cause to be taken all such further action, as may reasonably be requested by or upon the written demand of the Government or CFC in order to include in this Mortgage, as Mortgaged Property, and to subject to all the terms and conditions of this Mortgage, all right, title and interest of the Mortgagor in and to, all and singular, the automobiles, trucks, trailers, tractors, aircraft, towboats, tugboats, barges, vessels, and ships then owned by the Mortgagor, or which may thereafter be owned or acquired by the Mortgagor. From and after the time of such written demand of the Government or CFC such property, shall be deemed to be part of the Mortgaged Property for all purposes hereof.

SECTION 4.14. Time Extensions for Payment of Notes. Any Noteholder may, at any time or times in succession without notice to or the consent of the Mortgagor or any other Noteholder and upon such terms as such Noteholder may prescribe, grant to any person, firm or corporation who shall have become obligated to pay all or any part of the principal of or interest on any Note held by or indebtedness owed to such Noteholder or who may be affected by the lien hereby created, an extension of the time for the payment of such principal or interest, and after any such extension the Mortgagor will remain liable for the payment of such Note or indebtedness to the same extent as though it had at the time of such extension consented thereto in writing.

SECTION 4.15. TIER and DSC Requirements Pertaining to Rates.

(a)(1) The Mortgagor shall design, implement and collect rates for electric capacity, energy and other services furnished by it to provide sufficient revenue (along with other revenue available to the Mortgagor) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis a TIER of 1.05 and a DSC of 1.0.

(2) The Mortgagor shall give thirty (30) days prior written notice of any proposed change in its general rate structure to each of the Mortgagees.

(b)(1) The average TIER and DSC achieved by the Mortgagor in the two (2) best years out of the three (3) most recent calendar years must not be less than 1.05 for TIER and 1.0 for DSC.

(2) Promptly following the end of each calendar year, the Mortgagor shall report in writing to the Mortgagees the TIER and DSC levels which were achieved during that calendar year.

(3) If the Mortgagor fails to achieve the average levels required by paragraph (b)(1) of this section, it must promptly notify the Mortgagees in writing to that effect.

(4) Within thirty (30) days of sending a notice to the Government under paragraph (b)(3) of this section, or of being notified by the Government, whichever is earlier, the Mortgagor in consultation with the Government shall provide a written plan satisfactory to the Government setting forth the actions that shall be taken to achieve the required TIER and DSC on a timely basis.

SECTION 4.16. Limitations on Dividends, Patronage Refunds and Other Cash Distributions. The Mortgagor will not, in any one year, without the approval in writing of the Government and the Two-Thirds Noteholders, declare or pay any dividends, or pay or determine to pay any patronage refunds, or retire any patronage capital or make any other cash distributions (such dividends, refunds, retirements and other distributions being hereinafter collectively called "Distributions") to its members, stockholders or consumers if, after giving effect to any such Distribution, the total Equity of the Mortgagor will not equal or exceed 30% of its Total Assets; provided, however, that the Mortgagor may nevertheless make Distributions in any year up to 25% of the Patronage Capital or Margins received by the Mortgagor in the next preceeding year where, after giving effect to any such Distribution, the total Equity of the Mortgagor will equal or exceed 20% of its Total Assets and other debits, and provided, however, that in no event will the Mortgagor make any Distributions if there is unpaid when due any installment of principal of or interest on the Notes, if the Mortgagor is otherwise in default hereunder or if, after giving effect to any such Distribution, the Mortgagor's total current and accrued assets would be less than its total current and accrued liabilities.

For the purpose of this section, a "cash distribution" shall be deemed to include any general cancellation or abatement of charges for electric energy or services furnished by the Mortgagor, but not the repayment of a membership fee of not in excess of $100 upon termination of a membership.

SECTION 4.17. Application of Proceeds from Condemnation. In the event that the Mortgaged Property, or any part thereof, shall be taken under the power of eminent domain, all proceeds and avails therefrom, except to the extent that the Government and CFC shall consent to other use and application thereof by the Mortgagor, shall forthwith be applied by the Mortgagor: first, to the ratable payment of any indebtedness secured by this Mortgage other than indebtedness under the Notes; second, to the ratable payment of interest and premium, if any, which shall have accrued on the Notes and be unpaid; third, to the ratable payment of or on account of the unpaid principal of the Notes, to such installments thereof as may be designated by the respective Noteholders at the time of any such payment; and fourth, to the ratable payment of any and all other amounts payable under the Notes; and fifth, the balance shall be paid to whosoever shall be entitled thereto; provided, however, that any Noteholder may cause