

1. What is security assurance?

Security Assurance provides payment to TVA in three situations:

1. to pay rent in the event licensee fails to make payment.
2. to defray expenses associated with site cleanup if licensee leaves materials and structures on TVA property after termination.
3. to defray expenses associated with restoring TVA property if damages occur when licensee removes structures, equipment, and any other items from site.

This payment is refunded to the operator upon termination of the license if the conditions of the license agreement have been satisfied.

2. How is the security assurance amount determined?

The amount of security assurance is determined by two components outlined below.

1. The first component is equal to six months of rent—six months of minimum rent for those on “percentage of gross” payment method and six months of annual market value for those on the market value option. Reference Exhibit C of your license to determine your respective amount. The amount can potentially be reduced to zero if the licensee meets a creditworthiness criteria set by TVA. To determine if you meet these criteria, you can submit three years of complete financial information for TVA to review. The necessary financial information includes audited financial information, balance sheets, income statements, cash flow statements, income tax returns, and other similar type information.
2. The second component is calculated based upon an assessment TVA completes for the condition of your facility and operations. The better the condition of the facility and operations, the higher the assessment score which results in a lower required amount for security assurance. The poorer the condition of the facility and operations, the lower the assessment score which results in a higher required amount for security assurance. The assessment is similar in concept to a restaurant health score.

3. What if I do not want to submit my complete financial information to TVA?

You do not have to submit the financial information to TVA unless TVA specifically requests you to do so. Six month's rent is automatically included in the amount of security assurance. As an option, you can voluntarily provide financial information to TVA to determine if the six month's rent component of your security assurance amount can be omitted. If you are deemed creditworthy by TVA, the amount of security assurance could be reduced.

4. How often will the assessments be conducted?

The conditions assessment is anticipated to be conducted every year. If the assessment results in a different amount for the required security assurance, you will be notified by letter. If an assessment were not to be conducted in a given year, the amount of security assurance will remain the same as the previous year.

5. Will I have to pay security assurance every year?

No. Once TVA has received a cash deposit or a Letter of Credit, the security assurance is held until the license agreement is terminated. Your license area will be inspected annually, and depending on the condition of your facilities, the amount required may be increased, or decreased. In the case of an increase, an additional cash deposit would be made, or a new Letter of Credit for the greater amount would be issued. If the amount is decreased, TVA will refund portions of a cash deposit or accept a new Letter of Credit for the lesser amount.

6. Could the amount of my security assurance fluctuate each year?

Yes. If an operator makes improvements to their facilities, their security assurance amount could decrease. If, on the other hand, proper maintenance is not being performed, the security assurance amount could increase.

7. When will I have to pay my security assurance?

Security assurance, either by cash deposit or Letter of Credit, will be due to TVA as shown in letters provided to operators.

8. Where do I mail TVA a cash deposit?

Submit a check or money order made payable to the Tennessee Valley Authority. Mail the check to:

Tennessee Valley Authority
Director, Corporate Credit
400 West Summit Hill Drive, WT 4C
Knoxville, Tennessee 37902-1401

Please include a copy of page 1 of your license agreement, write "security assurance" on the check, and write your contract number on the check. Keep a copy of your check for your files. For electronic funds transfer direct from an agreement holder's bank to TVA's bank, contact Robin Griffin, TVA, 865-632-2636, to make arrangements.

9. I have multiple licenses with TVA. Can I use one Letter of Credit for all of them?

Yes. The amount will be the sum of the individual amounts for each location. Each location will need to be listed on the Letter of Credit documents.

10. How do I provide the Letter of Credit?

Below are the steps to provide your Letter of Credit to TVA.

- Determine the amount of security assurance required by TVA. This will be shown in Section O of your agreement or in a subsequent letter. If unsure, contact your TVA representative.
- Determine which financial institutions are acceptable to TVA (see answer to Question 12).

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- Request an acceptable financial institution to prepare a draft Letter of Credit (see examples on pages 5 through 9) and email it to your TVA representative. **Do this before preparing the final Letter of Credit.**
- TVA will review and email back its concurrence or specify the changes needed.
- The final Letter of Credit and a copy of page 1 of your license should be mailed to:

Tennessee Valley Authority
Director, Corporate Credit
400 West Summit Hill Drive, WT 4C
Knoxville, Tennessee 37902-1401

11. Will I get my security assurance back when I sell my business?

Yes, if your rent (includes “true up” payments if on percentage of gross method) is completely paid and the site is left in good condition with all your structures and facilities removed.

No, if all rent is not paid, if abandoned structures and facilities are left behind, or if the property is damaged and left unrepaired from your removal work.

Should you wish to transfer your license to a new owner, TVA must approve this action in advance and agree to offer the new owner a license agreement. Contact your TVA Representative as soon as possible when you anticipate a transfer.

12. Can my local bank issue a Letter of Credit?

Below are the requirements for acceptable financial institutions:

- For Letters of Credit \$25,000 or less - TVA will accept a Letter of Credit issued by most local banks subject to TVA Corporate Credit's review and approval.
- For Letters of Credit greater than \$25,000 and up to \$750,000 - Under an arrangement with Bank of America, TVA will accept a Letter of Credit from the following five (5) regional banks, subject to Bank of America's approval and confirmation:

Regions Bank
First Tennessee Bank
SunTrust Bank
Trustmark Bank
Compass Bank

These five banks have locations throughout the Valley.

TVA will also accept a letter of credit from a U.S. commercial bank domiciled in the United States, or a foreign bank with a U.S. branch, and must possess and maintain a Qualified Rating on its senior unsecured long-term debt, not supported by third-party enhancements, as determined by Moody's Investor Service, Inc. (Moody's), or its successor, Standard & Poor's Corporation (S&P), or its successor, and Fitch Ratings (Fitch), or its successor. The term “Qualified Rating” is

defined in this paragraph to be a rating during the time when at least two of the following three conditions exist: the senior unsecured long-term debt, not supported by third-party enhancements, of the issuing bank (a) is 'A3' or above as rated by Moody's, (b) is 'A-' or above as rated by S&P, or (c) is 'A-' or above as rated by Fitch.

13. Are there any requirements for the Letter of Credit?

The Letter of Credit must be issued for a term of at least one (1) year with an automatic renewal clause for a similar term thereafter. The Letter of Credit must remain in effect for the term of the license and should be renewed at least forty-five (45) days before the date that a Letter of Credit is due to expire. See example of Form Letter of Credit and associated annexes on pages 5 through 9.

14. Does TVA pay interest on cash deposits? If so, how much and when is the interest paid?

TVA does pay interest on cash deposits at TVA's average short-term borrowing rate. Interest is credited monthly but never added to the principal or compounded. The accrued interest will be refunded at the time the cash deposit is refunded, normally upon termination of the agreement and satisfactory site review, or upon changes in the agreement such that a cash deposit is no longer required. TVA's short-term borrowing rate fluctuates. The rate is typically very low, often below 1/10 percent.

FORM LETTER OF CREDIT

[LETTERHEAD]

[DATE]

IRREVOCABLE STANDBY LETTER OF CREDIT NO. _____

Beneficiary:

Applicant:

Tennessee Valley Authority
Attn: Kirk A. Kelley
Director, Corporate Credit
400 West Summit Hill Drive, WT 4C
Knoxville, Tennessee 37902-1401

Dear Madam or Sir:

We hereby establish for the account of _____ (Seller) _____ (“Seller’s name” or “Applicant”), our irrevocable standby letter of credit in your favor for an amount of USD _____ (_____ Dollars United States currency). Applicant has advised us that this letter of credit is issued in connection with the _____ Agreement dated as of _____, 20____, between Applicant and Beneficiary (as amended and as may be further amended, supplemented or otherwise modified, the “_____ Agreement”). This letter of credit shall; (i) become effective immediately for the term of one (1) year and shall expire on _____ (the “Expiration Date”), and (ii) is subject to the following:

1. Funds under this letter of credit shall be made available to Beneficiary against its draft drawn on us in the form of Annex 1 hereto, accompanied by (a) a certificate in the form of Annex 2 hereto, appropriately completed and signed by an authorized officer of Beneficiary, dated the date of presentation and (b) the original of the letter of credit (the “Accompanying Documents”) and presented at our office located at _____, attention _____ (or at any other office which may be designated by us by written notice delivered to you). A presentation under this letter of credit may be made only on a day, and during hours, in which such office is open for business (a “Business Day”). If we receive your draft and the Accompanying Documents at such office on any Business Day, all in strict conformity with the terms and conditions of this letter of credit, we will honor the same by making payment at sight on the same day of presentation. Upon any draw of the letter of credit, unless otherwise agreed to by Tennessee Valley Authority, Applicant shall be obligated to replenish the amount of the letter of credit draw within twenty (20) days.
2. This letter of credit shall terminate upon the earliest to occur of (i) our receipt of a notice in the form of Annex 3 hereto signed by an authorized officer of Beneficiary, accompanied by this letter of credit for cancellation, (ii) our close of business at our aforesaid office on the Expiration Date, or if the Expiration Date is not a Business Day, then on the succeeding Business Day. This letter of credit shall be surrendered to us by you upon the earlier of presentation or expiration.
3. It is a condition of the letter of credit that it shall be deemed to be automatically extended without amendment for periods of one (1) year from the present or any future expiration date, unless at

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least forty-five (45) days prior to any such expiration date we send you notice by registered mail, return receipt requested or courier service or hand delivery at the above address that we hereby elect not to consider this letter of credit extended for any such additional period.

4. This letter of credit is issued and subject to the International Standby Practices 1998 (ISP98).
5. This letter of credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein, except for Annexes 1, 2 and 3 hereto and the notices referred to herein; and any such reference shall not be deemed to incorporate herein by reference any document, instrument or agreement except as otherwise provided in this Paragraph 5.
6. Communications with respect to this letter of credit shall be in writing and shall be addressed to us at the address referred to in paragraph 1 above, and shall specifically refer to this letter of credit no. _____.

Sincerely,

[LOC Issuer]

Authorized signature

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ANNEX 1
TO LETTER OF CREDIT NO. _____

Draft under Letter of Credit No. _____

[Month, Day , Year]

On Sight

Pay to:

Tennessee Valley Authority U.S. \$ _____ [not to exceed amount available to be drawn]
400 West Summit Hill Drive, WT 4C
Knoxville, TN 37902-1401

[insert any wire instructions]

For value received and charge to account of Letter of Credit No. _____ of _____

By: _____

Title: _____

ANNEX 2
TO LETTER OF CREDIT NO. _____

Drawing under Letter of Credit No. _____

The undersigned, a duly authorized officer of the **Tennessee Valley Authority**, a corporate instrumentality and agency of The United States of America ("Beneficiary"), hereby certifies on behalf of Beneficiary to _____ with reference to irrevocable standby Letter of Credit No. _____ (the "Letter of Credit") issued for the account of _____, ("X"), that:

- 1) [pursuant to the _____ Agreement between Beneficiary and X, as of the date hereof Beneficiary is entitled to draw under the Letter of Credit;]

--or--

[Beneficiary has received notice from the Issuing Bank pursuant to Section 3 of the Letter of Credit and, as such, as of the date hereto Beneficiary is entitled to draw under the Letter of Credit;]

- 2) by presenting this certificate and the accompanying sight draft, Beneficiary is requesting that payment in the amount of \$_____, as specified on said draft, be made under the Letter of Credit by wire transfer or deposit of funds into the account specified on said draft;
- 3) the amount specified on the sight draft accompanying this certificate does not exceed the amount to which Beneficiary is entitled to draft under said _____ Agreement.

In witness whereof, Beneficiary has caused this certificate to be duly executed and delivered by its duly authorized officer as of the date and year written below.

Date: _____

By: _____

Title: _____

ANNEX 3
TO LETTER OF CREDIT NO. _____

Notice of surrender of Letter of Credit No. _____

Date: _____

Attention: Letter of Credit Department

Re: Letter of Credit No. _____ issued for the account of _____ (Seller)

Ladies and Gentlemen:

We refer to your above-mentioned irrevocable standby Letter of Credit (the "Letter of Credit"). The undersigned hereby surrenders the Letter of Credit to you for cancellation as of the date hereof. No payment is demanded of you under this Letter of Credit in connection with this surrender.

Sincerely,

By: _____

Title: _____