

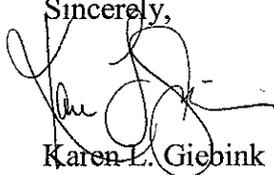
Indenture. If this language is not incorporated the Trustee will have no mechanism to move excess funds even if so ordered by the Commission.

2. The language in paragraph 2.(d)(2) provides that if amounts on deposit in the other pledged funds and accounts are insufficient to pay debt service, that the Trustee (and not the NBC) shall use amounts in the Revenue Stability Reserve in order to avoid a default. Bond counsel advises that it is a requirement of Trust Indentures that all funds not applied to operations or payment of required arbitrage rebates to the federal government must be pledged to, and available for, the payment of debt service in order to avoid a default. This language is consistent with all of the language found throughout the Trust Indenture with regard to application of funds and accounts in order to avoid a deficiency. It covers a "worst case scenario" whereby the Trustee has the authority to use the Revenue Stability Reserve if there were insufficient funds in the Debt Service Fund, Redemption Fund, Debt Service Reserve Fund, Project Fund, and Operation and Maintenance Reserve Fund to make debt service payments.
3. Funds may only be withdrawn by the Trustee (and not the NBC) from the Revenue Stability Reserve if there are insufficient amounts in the Revenue Fund for the Trustee to make all of the required monthly deposits as required by the Trust Indenture's flow of funds. The circumstances under which this may occur are **serious revenue shortfalls**.
4. With regard to utilization of interest on monies in the Revenue Stability Reserve, NBC understood that the Commission wanted investment earnings on the Revenue Stability Reserve to be available to pay for operations and that the Commission intended to make adjustment in the rate filing to identify this revenue stream. Therefore, NBC directed bond counsel to provide that interest be transferred to the Revenue Fund and subject to the flow of funds as set forth in the Trust Indenture. If the Commission wishes that the investment earnings remain in the Revenue Stability Reserve until the reserve fund requirement is met, the language can easily be changed.

The purpose of the Revenue Stability Reserve remains as originally represented which is to address serious revenue shortfalls resulting primarily from variability in consumption related revenues. NBC has outstanding debt of more than \$440 million including \$65.8 million in variable rate mode that is priced weekly. Annual debt service is \$30.6 million and more than 56% of NBC's receipts from user charges are restricted for debt service and debt service coverage. Given the magnitude of NBC's existing debt and programmed borrowings related to mandated capital improvements it is imperative that NBC has the ability to meet its financial obligations.

Again, the Supplemental Indenture is a **draft** document provided in response to a request from the Commission. NBC is available to meet with staff from the Commission and the Division to address any outstanding concerns regarding the language in the Supplemental Indenture. Thank you for your consideration of this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Karen L. Giebink', written over a circular stamp or watermark.

Karen L. Giebink
Director of Administration and Finance

Cc: Service List