

APPENDIX G

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SURETY BOND

Ambac Assurance Corporation

Statutory Office:
c/o CT Corporation
44 East Mifflin Street
Madison, Wisconsin 53703

Administrative Office:
One State Street Plaza
New York, New York 10004
Telephone: (212) 668-0340

Policy No. SB__BE

Ambac Assurance Corporation ("Ambac"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the Series 2005 Bonds (as hereinafter defined) and which are required to be made by or on behalf of the (the "Obligor") to ____ (the "Paying Agent/Trustee") as such payments are due by the Obligor but shall not be so paid pursuant to a resolution of the City Council of the Obligor authorizing the issuance of \$ ____ (the "[Obligations]") of said city and providing the terms and conditions for the issuance of said [Obligations] (the "Resolution/Indenture/Ordinance"); provided that the amount available at any particular time to be paid to the Paying Agent under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of \$ ____ or the [Debt Service Reserve Fund Requirement for the [Obligations], as that term is defined in the Resolution] (the "Reserve Requirement"). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any [Obligation] as indicated in the books maintained by the applicable paying agent, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the [Obligations].
2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment I (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due as required by the Resolution has not been made to the Paying Agent; or (ii) the payment date of the [Obligations] as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, in [City/State] sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.
3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Paying Agent, as promptly as reasonably practicable that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.
4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of the date of the [Obligations], by and between Ambac and the Obligor (the "Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Coverage, Ambac will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such

reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the [Obligations] is lowered or reduced pursuant to the terms of the Resolution.

5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004.

6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i) (the maturity date of the [Obligations]) or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the [Obligations] pursuant to the Resolution. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the [Obligations].

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin [or Minnesota, Nebraska, North Carolina, South Carolina, Utah, Vermont, Washington or Commonwealth of Pennsylvania, for financings in those states], and any suit hereunder [seeking specific performance (for Florida)] in connection with any payment may be brought only by the Paying Agent within one year [two years in Minnesota, three years in Maryland and Utah, five years in Kansas] after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this day of, 200_ .

Ambac Assurance Corporation

Attest: _____
Assistant Secretary

By: _____
Vice President and Assistant General Counsel

Oldham, Jeff

From: Graham, Julianne [jgraham@wileybros.com]
Sent: Thursday, July 14, 2005 12:59 PM
To: Oldham, Jeff
Subject: FW: Bristol (City of) TN

FYI

-----Original Message-----

From: Moody's Investors Service (mailto:epi@moody's.com)
Sent: Thursday, July 14, 2005 11:51 AM
To: Graham, Julianne
Subject: Bristol (City of) TN

MOODY'S ASSIGNS A2 RATING TO THE CITY OF BRISTOL'S (TN) \$24 MILLION
ELECTRIC
SYSTEM REVENUE BONDS, SERIES 2005

A2 RATING ASSIGNMENT AFFECTS \$24 MILLION OF OUTSTANDING LONG-TERM DEBT,
INCLUDING THE CURRENT ISSUE

Bristol (City of) TN
Electric Utilities
Tennessee

Moody's Rating

| Issue | Rating |
|--|-------------------------------|
| Electric System Revenue Bonds, Series 2005 | A2 |
| Sale Amount | \$24,000,000 |
| Expected Sale Date | 07/11/05 |
| Rating Description | Electric System Revenue Bonds |

NEW YORK, July 14, 2005 -- Moody's Investors Service has assigned an A2 underlying rating to the City of Bristol's \$24 million Electric System Revenue Bonds, Series 2005. The Series 2005 bonds are secured by a first lien on electric system net revenues. The A2 rating reflects the system's concentrated customer base, strong and effective management, below average debt payout and service area with wealth levels below state medians. Proceeds of the bonds will finance improvements and expansion of the system, including the construction of a new 20 MVA substation. Subject to Moody's review of the insurance policy and other relevant documentation, the bonds are expected to carry AMBAC's current financial strength rating of Aaa.

SATISFACTORY LEGAL PROTECTION FOR BONDHOLDERS

The Series 2005 Bonds are accompanied by a new Bond Resolution, approved by the Bristol City Council on June 7, 2005. The resolution allows for the use of surety bonds in lieu of cash for debt service reserve requirements. Legal covenants in the resolution offer satisfactory bondholder protection. The rate

covenant requires net revenue coverage of 1.2 times annual debt service while the additional bonds test requires 1.2 times coverage of maximum annual debt service by net revenues from 12 consecutive months out of the 18 months immediately preceding the issue.

SOME VULNERABILITY EXISTS IN CONCENTRATED, INDUSTRIAL CUSTOMER BASE

The Bristol Tennessee Electric System, a component of Bristol Tennessee Essential Services (BTES) is an electrical distributor of TVA generated power and the service area encompasses approximately 280 square miles in Northeastern Tennessee's Sullivan and Washington Counties (G.O. of each rated Aa3), including the City of Bristol (G.O. rated A1), serving approximately 31,799 customers. Residential accounts comprise 87% of the customer base, although approximately 45% of revenues come from industrial clients. Customer growth, however, has been slow but steady at an annual average of 1.1% over the last ten years. The system distributes power through two substations with a 500 MVA capacity. As a result of effective long-range planning and system engineering to ensure service reliability to the system's industrial clients, peak usage is a low 49% of capacity.

The county's unemployment rate has historically been below the state and national levels, and was 5.0% in 2004, versus 5.0% and 5.0% for the state and nation, respectively. Additionally, the county's wealth levels are below average, with Per Capita Income and Median Family Income at 81.2% and 80.6% of the state's medians, respectively.

The system relies heavily on the area's industrial activity and exhibits significant concentration in its customer base. Commercial revenues accounted for 51% of the system's fiscal 2004 operating revenues. Furthermore, approximately 20% of fiscal 2004 operating revenues was derived from the top ten customers. The top three, Exide Corporation (rated Caal sr. implied rating), City of Bristol, and Modern Forge of Tennessee accounted for 6.4%, 3.3% and 1.9% of fiscal 2004 operating revenues, respectively. Management believes it unlikely that any will seek alternative energy suppliers.

COMPETITIVE RATES AND EFFICIENT OPERATIONS DUE TO STRONG MANAGEMENT

Management seeks to maintain consistent net revenues from stable rates, but has taken action to raise rates when necessary. The system raised rates in October 2003 due to a TVA increase and has planned a 7.5% increase in October 2005 to pass through an anticipated TVA wholesale rate increase. The system's fiscal 2004 working capital of \$7.5 million is reasonable in terms of its budget and equals an ample 134% of 2004 operating expenses (excluding power purchases). Additionally, fiscal year 2004 net revenues provide a sound

3.03

times coverage of this issue's maximum annual debt service. Moody's expects that net revenues of the system will provide sufficient coverage of debt service, and that comfortable reserve levels will be maintained. Additionally, helping to somewhat mitigate the customer base concentration is the fact that the loss of a major customer would result in a corresponding reduction in the overall cost of power purchased from TVA. Management reports that collections are very strong, with 2004 bad debts at 0.175% of revenues, well below the system's goal of 0.25%.

MODERATE DEBT RATIO AND BELOW-AVERAGE DEBT PAYOUT

The pro forma debt ratio of 35.7% is slightly higher than Moody's median of 31.7% for electric distribution systems, and payout of system debt is slow with only 19.5% of principal amortized in 10 years. Annual debt service is minimal in the first two years and then steps up to a pro forma 2.5% of expenditures. Moody's expects BTES' debt burden to remain moderate in the medium term as repayment is structured with level debt service over the life of the bonds and management reports that future capital needs will be funded on a pay-as-you-go basis. The system has no immediate plans for additional expansion but expects to continually evaluate opportunities for new growth.

KEY STATISTICS:

Type of System: Electric distribution

2005 Estimated Service Area Population: 70,000

2004 Customers: 31,799

1999 Sullivan County Median Family Income: \$41,025 (80.6% of State Median)

1999 Sullivan County Per Capita Income: \$24,245 (81.2% of State Median)

Maximum Annual Debt Service Coverage by FY 2004 Net Revenues: 3.03x

2005 Pro Forma Debt Ratio: 35.7%

2004 Operating Ratio: 93.3%

Post-sale Parity Debt Outstanding: \$24 Million

Amortization of Principal, Ten Years: 19.5%

ANALYSTS:

Susan Freiner, Analyst, Public Finance Group, Moody's Investors Service
Gregory W. Lipitz, Backup Analyst, Public Finance Group, Moody's Investors Service
Bill Leech, Senior Credit Officer, Public Finance Group, Moody's Investors

Service

CONTACTS:

Journalists: (212) 553-0376

Research Clients: (212) 553-1653

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each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,300,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

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Moody's Investors Service

99 Church Street
New York, NY

July 27, 2005

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004

To Whom It May Concern:

Moody's Investors Service has assigned the rating of Aaa (Ambac Assurance Corporation Insured - Policy No. 24321BE) to the **\$23,910,000.00, City of Bristol, Tennessee - Electric System Revenue Bonds, Series 2005**, dated July 27, 2005 which sold through negotiation on July 11, 2005. The rating is based upon an insurance policy provided by Ambac Assurance Corporation.

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Margaret Kessler at (212) 553-7884.

Sincerely yours,

Margaret Kessler

Margaret L. Kessler
Vice President/Senior Analyst

MLK / PS

CITY OF BRISTOL, TENNESSEE
\$23,910,000 ELECTRIC SYSTEM REVENUE BONDS,
SERIES 2005

UNDERWRITER'S CLOSING CERTIFICATE

I hereby certify that Wiley Bros. – Aintree Capital, LLC (the "Underwriter") has purchased all of the captioned obligations (the "Obligations") from the City of Bristol, Tennessee (the "Issuer") and has, on the date hereof, received all of the Obligations, in fully registered, book-entry form, duly authenticated by the registration and paying agent for the Obligations. I acknowledge that the Obligations are dated July 27, 2005, mature on September 1 in each of the years set forth below, and bear interest at the rates set forth below, payable on March 1 and September 1 of each year, commencing September 1, 2005.

I hereby certify that the Underwriter has made a bona fide offering of the Obligations to the public (excluding bond houses, brokers and other similar persons or organizations acting in the capacity of underwriters or wholesalers) at the initial offering prices set forth below, plus accrued interest; and a substantial amount (10%) of each maturity of the Obligations were sold to the public at or below such initial offering price or it is reasonably expected that a substantial amount (10%) of each maturity will be sold to the public at or below such price:

| <u>Year</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Initial Offering Price to the Public</u> | |
|-------------|---------------|--------------------------|--|-----------------------------------|
| | | | <u>(Expressed as percentage of Principal Amount)</u> | <u>(Expressed in Dollars)</u> |
| 2007 | \$440,000 | 3.500% | 101.473% | \$446,481.20 |
| 2008 | 455,000 | 3.500 | 101.761 | 463,012.55 |
| 2009 | 470,000 | 3.500 | 101.833 | 478,615.10 |
| 2010 | 485,000 | 3.500 | 101.586 | 492,692.10 |
| 2011 | 505,000 | 3.500 | 101.204 | 511,080.20 |
| 2012 | 520,000 | 3.250 | 99.059 | 515,106.80 |
| 2013 | 540,000 | 3.250 | 98.248 | 530,539.20 |
| 2014 | 555,000 | 3.375 | 98.342 | 545,798.10 |
| 2015 | 575,000 | 3.500 | 98.491 | 566,323.25 |
| 2016 | 600,000 | 3.625 | 98.603 | 591,618.00 |
| 2018 | 1,280,000 | 5.000 | 109.102 | 1,396,505.60 |
| 2020 | 1,415,000 | 5.000 | 108.234 | 1,531,511.10 |
| 2022 | 1,560,000 | 4.750 | 104.232 | 1,626,019.20 |
| 2024 | 1,715,000 | 4.750 | 103.401 | 1,773,327.10 |
| 2027 | 2,880,000 | 4.250 | 97.752 | 2,815,257.60 |
| 2029 | 2,150,000 | 5.000 | 105.931 | 2,277,516.50 |
| 2033 | 4,935,000 | 4.375 | 97.702 | 4,821,593.70 |
| 2035 | 2,830,000 | 5.000 | 105.260 | 2,978,858.00 |

I hereby certify that, in the Underwriter's opinion, under current market conditions, the present value of the additional interest that would have been required to have been paid on the Obligations in the absence of the municipal bond insurance policy (the "Bond Insurance Policy") issued by Ambac Assurance Corporation, insuring the timely payment of principal of and interest on the Obligations, would have exceeded the premium to be paid for such insurance (utilizing the yield on the Obligations, computed without regard to insurance costs, as the discount factor); and the premium to be paid for the Bond Insurance Policy does not exceed a reasonable arm's-length charge for the transfer of credit risk with respect to the Obligations.

IN WITNESS WHEREOF, the undersigned has hereunto set its hand by its duly authorized officer as of the 27th day of July, 2005.

WILEY BROS. – AINTREE CAPITAL, LLC

By: 

Title: MANAGING PRINCIPAL

THE CITY OF BRISTOL, TENNESSEE
\$23,910,000 ELECTRIC SYSTEM REVENUE BONDS, SERIES 2005
BOND PURCHASE AGREEMENT

July 15, 2005

City Council
City of Bristol, Tennessee

Ladies and Gentlemen:

The undersigned, Wiley Bros. – Aintree Capital, LLC, Nashville, Tennessee (the "Underwriter"), offers to enter into the following agreement with the City of Bristol, Tennessee (the "Municipality"), which, upon the Municipality's acceptance and approval hereof, will be binding upon the Municipality and upon the Underwriter. This offer is made subject to acceptance by the Municipality, by execution of this Bond Purchase Agreement and its delivery to the Underwriter, on or before 11:59 p.m., central time on the date hereof, and, if not so accepted, will be thereafter subject to withdrawal by the Underwriter upon written notice delivered to the Municipality at any time prior to acceptance by the Municipality.

Capitalized terms used herein and not defined herein shall have the meanings given them in the Resolution (as hereinafter defined).

I. Purchase and Sale of the Bonds.

(a) Upon the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, the Underwriter hereby agrees to purchase from the Municipality for offering to the public, and the Municipality hereby agrees to sell to the Underwriter for such purpose, all (but not less than all) of not to exceed \$23,910,000 in aggregate principal amount of Electric System Revenue Bonds, Series 2005, dated the date of their delivery (the "Bonds") at the purchase price of \$24,244,696.35 (consisting of the par amount of the Bonds, less underwriter's discount of \$117,159.00, plus net original issue premium of \$451,855.35. The Bonds shall bear interest, shall mature, shall be redeemable and shall otherwise be as described in Exhibit A attached hereto and incorporated herein by reference.

(b) The Bonds shall be issued and secured under the provisions of a resolution adopted on June 7, 2005 (the "Resolution") by the City Council of the Municipality (the "Board"), providing for the issuance of the Bonds pursuant to Sections 7-34-101 et seq., Tennessee Code Annotated, as amended, and other applicable provisions of law. The Bonds shall be payable solely from and secured by a pledge of the Net Revenues (as defined in the Resolution). The payment of the principal of and interest on the Bonds will be insured by an insurance policy (the "Policy") issued by Ambac Assurance Corporation (the "Bond Insurer").

(c) The proceeds to be received by the Municipality from the sale of the Bonds are for the purpose of providing funds to finance improvements to the System and pay costs of issuance and sale of the Bonds, including the premium for the Policy to be issued by the Bond Insurer.

(d) After acceptance of this offer by the Municipality, the Underwriter agrees to make a bona fide public offering of all the Bonds at prices not in excess of the initial public offering prices (which may be expressed in terms of yield) set forth on the cover page of the Official Statement, dated the date hereof (the "Official Statement"). The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such initial public offering prices in the sole discretion of the Underwriter. Subsequent to such initial public offering, the Underwriter reserves the right to change the public offering prices as it may deem necessary in connection with the marketing of the Bonds.

(e) At the time of the Municipality's acceptance hereof (or as soon as reasonably practicable thereafter, but no later than the Closing (as hereinafter defined)), the Municipality shall have delivered, or caused to be delivered, to the Underwriter: (i) a certified copy of the Resolution; and (ii) a copy of the Official Statement, manually signed on behalf of the Municipality by the Mayor and City Recorder of the Municipality.

(f) The Municipality authorizes the Underwriter to use copies of the Official Statement and the information contained therein in connection with the public offering and sale of the Bonds and agrees not to supplement or amend, or cause to be supplemented or amended, the Official Statement, at any time prior to the Closing, without the consent of the Underwriter. The Municipality ratifies and confirms the use by the Underwriter, prior to the date hereof in connection with the public offering of the Bonds, of the Preliminary Official Statement of the Municipality relating to the Bonds, dated July 13, 2005, which with any and all appendices, exhibits, maps, reports and summaries included therein is hereinafter called the "Preliminary Official Statement".

(g) As of its date, the Preliminary Official Statement has been "deemed final" (except for permitted omissions) by the Municipality for purposes of Rule 15c2-12(b)(1) of the Securities and Exchange Commission. The Municipality will deliver, or cause to be delivered, to the Underwriter, promptly after the acceptance hereof, but in any event within seven (7) days of the date hereof, copies of the Official Statement, sufficient to enable the Underwriter to comply with the requirements of Rule 15c2-12 of the Securities Exchange Commission (and the related rules of the Municipal Securities Rulemaking Board).

2. Liquidated Damages. If the Municipality accepts this offer and if the Underwriter fails (other than for a reason permitted hereunder) to accept and pay for the Bonds upon tender thereof by the Municipality at the Closing as herein provided, the parties hereby agree that the damages to the Municipality shall be fixed at one percent (1%) of the aggregate principal amount of the Bonds, and, upon such failure of the Underwriter to accept and pay for the Bonds, the Underwriter shall be obligated to pay to the Municipality such amount as and for full liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriter. Upon such payment the Underwriter shall be fully released and discharged of all claims, rights and damages for such failure and for any and all such defaults. In no event shall the Municipality be entitled to damages of any nature other than the liquidated damages herein specified.

3. Closing. At 10:00 a.m., central time, on July 27, 2005, or at such other time or date as shall have been mutually agreed upon by the Municipality and the Underwriter, the Municipality will deliver, or cause to be delivered, to the Underwriter, or such agent as it shall designate, the Bonds, in book-entry form, duly executed on the Municipality's behalf, together with the other documents hereinafter mentioned, and the Underwriter will accept, or cause to be accepted, such delivery and pay to the Municipality the purchase price of the Bonds in the amount set forth in Section 1 hereof by wire transfer payable in immediately available funds or such other medium of payment as shall be acceptable

to the Municipality. Payment for the Bonds as aforesaid shall be made at the offices of Bass, Berry & Sims PLC, Nashville, Tennessee and delivery of the Bonds shall be made through Depository Trust Company, New York, New York, or at such other location mutually acceptable to the parties. Such payment and delivery is herein called the "Closing" and the date of the Closing is herein called the "Closing Date". The Bonds shall be issued initially in \$5,000 denominations or integral multiples thereof as shall be requested by the Underwriter, shall be issued in fully registered book-entry form, without coupons, and shall bear interest at the rates per annum set forth on the attached Exhibit A, payable semi-annually on March 1 and September 1 of each year, commencing September 1, 2005. The Bonds shall bear CUSIP numbers, shall be registered in such names and in such denominations as shall be designated in writing by the Underwriter to the Municipality or to Wachovia Bank, National Association, the registration and paying agent for the Bonds (the "Registration Agent"), and shall be duly authenticated by the Registration Agent. The Underwriter hereby instructs that the Bonds be delivered at Closing through The Depository Trust Company's "FAST Program".

4. Representations, Warranties and Covenants of the Municipality. The Municipality, by its acceptance hereof, represents, warrants and covenants to the Underwriter that:

(a) The Municipality is duly incorporated pursuant to the laws of the State of Tennessee;

(b) Except as set forth on Exhibit A, the Resolution has not been amended, restated or supplemented;

(c) The Municipality has and had, as the case may be, full legal right, power and authority to (i) adopt the Resolution and execute and deliver the Official Statement and this Bond Purchase Agreement, (ii) issue, sell and deliver the Bonds to the Underwriter as provided in this Bond Purchase Agreement, the Official Statement and the Resolution, (iii) carry out and consummate all other transactions contemplated by the aforesaid instruments, and (iv) operate the System;

(d) The Municipality has (i) duly adopted the Resolution, (ii) duly authorized the execution, delivery and performance of this Bond Purchase Agreement and the Bonds, (iii) duly authorized the execution, delivery and distribution of the Official Statement, and (iv) duly authorized the taking of any and all such action as may be required on the part of the Municipality to carry out, give effect to and consummate the transactions contemplated by the aforesaid instruments;

(e) The Municipality will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order for the Underwriter (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualification in effect so long as required for the distribution of the Bonds; provided, however, that in no event shall the Municipality be required to take any action which would subject it to general or unlimited service of process in any jurisdiction in which it is not now so subject;

(f) If between the date of this Bond Purchase Agreement and the "end of the underwriting period," as defined in Rule 15c2-12 of the Securities and Exchange Commission, an event occurs, of which the Municipality has knowledge, which might or would cause the

information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the Municipality will notify the Underwriter and, if such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Municipality will, at its expense, amend or supplement the Official Statement in a form and in a manner approved by the Underwriter;

(g) The System has not incurred any material liabilities, direct or contingent, nor has there been any material adverse change in the financial position, results of operations or condition, financial or otherwise, of the System since June 30, 2004, which is not described in the Official Statement, whether or not arising from transactions in the ordinary course of business;

(h) Between the date hereof and the date of the Closing, the System will not, without the prior written consent of the Underwriter, except as described in or contemplated by the Official Statement, incur any material liabilities, direct or contingent, other than in the ordinary course of business;

(i) To the extent permitted by law, the Municipality agrees to indemnify and hold harmless the Underwriter and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act of 1933, as amended) the Underwriter and the officers, agents and employees of the Underwriter against any and all losses, claims, damages, liabilities and expenses:

(i) arising out of any statement or information in the Official Statement, relating to the Municipality and the System that is or is alleged to be untrue or incorrect in any material respect or the omission or alleged omission therefrom of any statement or information that should be stated therein or that is necessary to make the statements therein relating to the Municipality and System not misleading in any material respect, and

(ii) to the extent of the aggregate amount paid in settlement of any litigation commenced or threatened arising from a claim based upon any such untrue statement or omission if such settlement is effected with the written consent of the Municipality;

provided, however, that the indemnity agreement contained in this Subsection shall not inure to the benefit of the Underwriter (or to the benefit of any person controlling the Underwriter), if the Underwriter failed to send or give a copy of the Official Statement to such person claiming such loss, damage, liability or expense at or prior to the written confirmation of the sale of Bonds to such person and the Underwriter was required by law to send or give such Official Statement.

In case any claim shall be made or action brought against the Underwriter or any controlling person based upon the Official Statement for which indemnity may be sought against the Municipality, as provided above, the Underwriter shall promptly notify the Municipality in writing setting forth the particulars of such claim or action and the Municipality shall assume the defense thereof, including the retaining of counsel acceptable to the Underwriter and the payment of all expenses. The Underwriter or any such controlling person shall have the right to retain separate counsel in any such action but shall bear the fees and expenses of such counsel unless (i) the Municipality shall have specifically authorized the retaining of such counsel or (ii) the parties to such suit include such Underwriter or controlling person or persons, and the Municipality and such Underwriter or controlling person or persons have been advised by such counsel that one or

more legal defenses may be available to it or them which may not be available to the Municipality, in which case the Municipality shall not be entitled to assume the defense of such suit notwithstanding its obligation to bear the fees and expenses of such counsel.

(j) All the certifications required to be made by the Municipality pursuant to Section 5 hereof are true and correct as of the date hereof.

(k) Any certificate signed by any official of the Municipality which purports to be signed on behalf of the Municipality and which is delivered to the Underwriter shall be deemed to be a representation and warranty by the Municipality to the Underwriter as to the truth of the statements made therein.

(l) For purposes of compliance with Rule 15c2-12, the Municipality will undertake pursuant to the Resolution, a Continuing Disclosure Agreement, to provide notices of the occurrence of certain events, if material under federal securities laws, and certain financial information. A description of these undertakings is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

5. Conditions of Closing. The obligations of the Underwriter hereunder shall be subject to the performance by the Municipality of its obligations to be performed hereunder at or prior to the Closing, to the accuracy of and compliance with the representations, warranties and covenants of the Municipality herein, in each case as of the time of delivery of this Bond Purchase Agreement and as of the Closing, and, in the discretion of the Underwriter, to the following:

(a) at the Closing, (i) the Resolution shall be in full force and effect and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and the Municipality shall have executed and there shall be in full force and effect such additional agreements, and there shall have been taken in connection therewith and in connection with the issuance of the Bonds all such action as shall, in the opinion of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel ("Bond Counsel") and the Underwriter, be necessary in connection with the transactions contemplated hereby, (ii) the Bonds shall have been duly authorized, executed and delivered as provided herein, (iii) the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and (iv) the Municipality shall perform or have performed all of its obligations under or specified in this Bond Purchase Agreement to be performed at or prior to the Closing;

(b) At or prior to the Closing Date, the Underwriter shall have received the following:

(i) The approving opinion, dated the Closing Date, of Bond Counsel, in substantially the form attached as Appendix F to the Official Statement, addressed to the Municipality and the Underwriter.

(ii) A certificate, dated the Closing Date, signed by the Mayor and City Recorder of the Municipality and the Chairman of the Board, in which such officers, to the best of their knowledge, information and belief, shall state that:

(A) Except as described in the Official Statement, there is no litigation or other legal or governmental action, proceeding, inquiry or investigation of any nature pending on the Closing Date, or to our knowledge threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, application of the

proceeds thereof, or the payment, collection or application of income or revenues of the System or the pledge thereof to the payment of the Bonds pursuant to the Resolution; seeking to restrain or enjoin the execution, delivery or performance of the Bond Purchase Agreement or the Escrow Agreement; in any manner questioning the proceedings or authority pursuant to which the Bonds are authorized or issued; in any manner questioning or relating to the validity of the Bonds, the Resolution or the Bond Purchase Agreement; contesting in any way the completeness or accuracy of the Official Statement; in any way contesting the corporate existence or boundaries of the Municipality or the title of its present officers to their respective offices; or contesting the powers of the Municipality or its authority with respect to the Bonds, the Resolution, the Bond Purchase Agreement or the Official Statement, or any act to be done or documents or certificates to be executed or delivered in connection with any of them.

(B) The Resolution is as of the Closing Date in full force and effect and has not been amended, modified or supplemented, except as provided herein.

(C) The execution and delivery of the Bond Purchase Agreement, the Escrow Agreement and the Bonds, the adoption of the Resolution, and the compliance by the Municipality with the terms and provisions thereof, will not conflict with, or result in any violation of any provision of the Resolution or similar incorporating or governing documents of the Municipality or of any amendments to any of the foregoing or any indenture, mortgage, deed of trust or other agreement or instrument to which the Municipality is a party or by which it or its properties are bound and will not violate any decree, order, injunction, judgment, determination or award to which the Municipality or its properties are subject.

(D) The Municipality has complied with all the requirements and satisfied all the conditions on its part to be performed or satisfied at or prior to the delivery of the Bonds.

(E) The descriptions and statements contained in the Official Statement were at the time of its publication and distribution, and are on the Closing Date, true and correct in all material respects, and the Official Statement did not at the time of its publication and distribution, and does not on the Closing Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated where necessary to make the statements made, in light of the circumstances under which they are made, not misleading.

(F) Other than the Bonds, the Municipality does not have outstanding any obligations payable from or secured by or entitled to a lien on the Net Revenues of the System and has not pledged said Net Revenues to secure any such obligations.

(G) Subsequent to June 30, 2004, there has been no material adverse change in the financial position or results of operations of the Municipality except as set forth in or contemplated by the Official Statement or as described in such certificate;

(iii) An opinion, dated the Closing Date and addressed to the Underwriter, of Jack Hyder, Bristol, Tennessee, Counsel to the Municipality, substantially in the form attached hereto as Exhibit B with such changes therein as shall be approved by the Underwriter and Bond Counsel.

(iv) Evidence satisfactory to the Underwriter that the Policy issued by the Bond Insurer is in full force and effect and all conditions precedent to the issuance thereof have been satisfied and all premiums due and payable thereon on the date of Closing have been paid;

(v) A certificate from the Bond Insurer and an opinion from counsel to the Bond Insurer with respect to the valid issuance and effectiveness of the Policy and to the accuracy and completeness of the Official Statement as to the Bond Insurer and the Policy;

(vi) Evidence that Moody's Investors Service, Inc. has issued a rating of "Aaa" for the Bonds; and

(vii) Such additional opinions, certificates (including such certificates as may be required by regulations of the Internal Revenue Service in order to establish the tax exempt character of the Bonds, which certificates shall be satisfactory in form and substance to Bond Counsel and the Underwriter), and other evidence as the Underwriter or Bond Counsel may reasonably deem necessary to evidence the truth or accuracy as of the Closing Date of the representations and warranties of the Municipality herein contained, and of the Official Statement and the due performance and satisfaction by the Municipality at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by it.

The opinions and certificates and other evidence referred to above shall be in form and substance satisfactory to the Underwriter.

If the Municipality shall be unable to satisfy the conditions to the obligations of the Underwriter contained in this Bond Purchase Agreement, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the Municipality shall be under any further obligation hereunder, except as provided in Section 2 hereof.

6. Termination of Agreement. The Underwriter may terminate this Bond Purchase Agreement, without liability therefor, by notification to the Municipality, if at any time subsequent to the date of this Bond Purchase Agreement and at or prior to the Closing:

(a) legislation shall be enacted by the Congress of the United States or a bill introduced (by amendment or otherwise) or favorably reported by a committee of the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States or the Tax Court of the United States shall be rendered, or a ruling, regulation or fiscal action shall be issued or proposed by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency with respect to or having the purpose or effect of including within gross income for federal income tax purposes interest received on bonds of the general character of the Bonds, which, in the reasonable opinion of the Underwriter, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices, by the Underwriter of the Bonds to be purchased by it; or

(b) any legislation, rule or regulation shall be introduced in, or be enacted by the General Assembly or any department or agency in the State of Tennessee, or a decision by any court of competent jurisdiction within the State of Tennessee shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market for the Bonds or

the sale, at the contemplated offering prices, by the Underwriter of the Bonds to be purchased by it; or

(c) any amendment to the Official Statement is proposed by the Municipality or deemed necessary by Bond Counsel pursuant to Section 4(f) hereof which, in the reasonable opinion of the Underwriter, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices, by the Underwriter of the Bonds to be purchased by it; or

(d) any fact shall exist or any event shall have occurred which, in the reasonable opinion of the Underwriter, makes the Official Statement, in the form as originally approved by the Municipality, contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading; or

(e) there shall have occurred any outbreak or escalation of hostilities or any national or international calamity or crisis, financial or otherwise, including a general suspension of trading on any national securities exchange, which, in the reasonable opinion of the Underwriter, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices, by the Underwriter of the Bonds to be purchased by it; or

(f) legislation shall be enacted or any action shall be taken by, or on behalf of, the Securities and Exchange Commission which, in the reasonable opinion of the Underwriter, has the effect of requiring the contemplated distribution of the Bonds to be registered under the Securities Act of 1933, as amended, or the Resolution to be qualified under the Trust Indenture Act of 1939, as amended, or any laws analogous thereto relating to governmental bodies, and compliance therewith cannot be accomplished prior to the Closing; or

(g) a general banking moratorium shall have been declared by United States, New York or Tennessee authorities, which, in the reasonable opinion of the Underwriter, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices, by the Underwriter of the Bonds to be purchased by it; or

(h) any national securities exchange, or any governmental authority, shall impose, as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter.

7. Expenses.

(a) The Municipality agrees to pay all expenses incident to the performance of its obligations hereunder, including but not limited to (i) the cost of the preparation, printing or other reproduction (for distribution prior to, on, or after the date of acceptance of this Bond Purchase Agreement) of reasonable quantities of the Resolution, the Preliminary Official Statement and the Official Statement, including shipping and distribution costs (ii) the cost of printing, signing, registering and authenticating the book-entry Bonds, and (iii) the fees and disbursements of Bond Counsel, Counsel to the Municipality, the Registration Agent, and of any other experts or consultants retained by the Municipality.

(b) In the event that either the Municipality or the Underwriter shall have paid obligations of the other as set forth in this Section, adjustment shall be made.

8. Miscellaneous.

(a) All notices, demands and formal actions hereunder shall be in writing and mailed, telegraphed or delivered to:

The Underwriter:

Wiley Bros. – Aintree Capital, LLC
Attention: Public Finance Department
201 4th Avenue North
Nashville, Tennessee 37219

The Municipality:

City of Bristol, Tennessee
Attention: Mayor
801 Anderson Street
Bristol, Tennessee 37620

This Bond Purchase Agreement will inure to the benefit of and be binding upon the parties and their successors and assigns, and will not confer any rights upon any other person. The terms "successors" and "assigns" shall not include any purchaser of any of the Bonds from the Underwriter merely because of such purchase.

Section headings have been inserted in this Bond Purchase Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Bond Purchase Agreement and will not be used in the interpretation of any provisions of this Bond Purchase Agreement.

If any provision of this Bond Purchase Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Bond Purchase Agreement invalid, inoperative or unenforceable to any extent whatever.


This Bond Purchase Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute one and the same document.

This Bond Purchase Agreement shall be governed by, and construed in accordance with, the law of the State of Tennessee.

This Bond Purchase Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof.

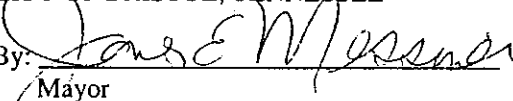
The Underwriter may waive compliance by the Municipality with any of the conditions, requirements, covenants, warranties or representations set forth herein, but waiver by the Underwriter of any such compliance shall not be deemed a waiver of compliance with any other of the conditions, requirements, covenants, warranties or representations set forth herein.

WILEY BROS. - AINTREE CAPITAL, LLC

By: 
Title: MANAGING PRINCIPAL

Accepted as of the date first
above written:

CITY OF BRISTOL, TENNESSEE

By: 
Mayor

Attest:

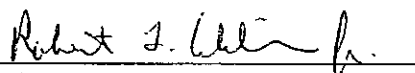

City Recorder

EXHIBIT A

\$23,910,000 ELECTRIC SYSTEM REVENUE BONDS, SERIES 2005
OF
THE CITY OF BRISTOL, TENNESSEE

The Bonds shall mature on September 1 of the years and in the aggregate principal amounts set forth below, and shall bear interest at the rates set forth below.

| <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|-------------|-------------------------|----------------------|
| 2007 | \$440,000 | 3.500% |
| 2008 | 455,000 | 3.500 |
| 2009 | 470,000 | 3.500 |
| 2010 | 485,000 | 3.500 |
| 2011 | 505,000 | 3.500 |
| 2012 | 520,000 | 3.250 |
| 2013 | 540,000 | 3.250 |
| 2014 | 555,000 | 3.375 |
| 2015 | 575,000 | 3.500 |
| 2016 | 600,000 | 3.625 |
| 2018 | 1,280,000 | 5.000 |
| 2020 | 1,415,000 | 5.000 |
| 2022 | 1,560,000 | 4.750 |
| 2024 | 1,715,000 | 4.750 |
| 2027 | 2,880,000 | 4.250 |
| 2029 | 2,150,000 | 5.000 |
| 2033 | 4,935,000 | 4.375 |
| 2035 | 2,830,000 | 5.000 |

Subject to the credit hereinafter mentioned, the Municipality shall redeem Bonds maturing on September 1, 2018, September 1, 2020, September 1, 2022, September 1, 2024, September 1, 2027, September 1, 2029, September 1, 2033, and September 1, 2035 on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the date of redemption. The Bonds to be so redeemed shall be selected by lot or in such other random manner as the Registration Agent in its discretion may designate. The dates of redemption and principal amount of Bonds to be redeemed on said dates are as follows:

| <u>Maturity</u> | <u>Redemption Date</u> | <u>Principal Amount to be Redeemed</u> |
|-----------------|------------------------|--|
| 9/1/2018 | 9/1/2017 | \$625,000 |
| | 9/1/2018* | \$655,000 |
| 9/1/2020 | 9/1/2019 | \$690,000 |
| | 9/1/2020* | \$725,000 |
| 9/1/2022 | 9/1/2021 | \$760,000 |
| | 9/1/2022* | \$800,000 |

| | | |
|----------|-----------|-------------|
| 9/1/2024 | 9/1/2023 | \$835,000 |
| | 9/1/2024* | \$880,000 |
| 9/1/2027 | 9/1/2025 | \$920,000 |
| | 9/1/2026 | \$960,000 |
| | 9/1/2027* | \$1,000,000 |
| 9/1/2029 | 9/1/2028 | \$1,050,000 |
| | 9/1/2029* | \$1,100,000 |
| 9/1/2033 | 9/1/2030 | \$1,155,000 |
| | 9/1/2031 | \$1,205,000 |
| | 9/1/2032 | \$1,260,000 |
| | 9/1/2033* | \$1,315,000 |
| 9/1/2035 | 9/1/2034 | \$1,380,000 |
| | 9/1/2035* | \$1,450,000 |

***Final Maturity**

At its option, to be exercised on or before the forty-fifth (45th) day next preceding any such redemption date, the Municipality may (i) deliver to the Registration Agent for cancellation Bonds maturing on September 1, 2018, September 1, 2020, September 1, 2022, September 1, 2024, September 1, 2027, September 1, 2029, September 1, 2033, and September 1, 2035, to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation for any Bonds maturing in such years to be redeemed which prior to said date have been purchased or redeemed (otherwise than through the operation of this paragraph) and canceled by the Registration Agent and not theretofore applied as a credit against any redemption obligation under this Subsection. Each Bond so delivered or previously purchased or redeemed shall be credited by the Registration Agent at 100% of the principal amount thereof on the obligation of the Municipality on such payment date and any excess shall be credited on future redemption obligations in chronological order, and the principal amount of Bonds to be redeemed by operation of this mandatory sinking fund provision shall be accordingly reduced. The Municipality shall on or before the forty-fifth (45th) day next preceding each payment date furnish the Registration Agent with its certificate indicating whether or not and to what extent the provisions of clauses (i) and (ii) of this paragraph are to be availed of with respect to such payment and confirm that funds for the balance of the next succeeding prescribed payment will be paid on or before the next succeeding payment date.

Except as set forth above, the Bonds shall be issued in accordance with the terms of the Resolution.

EXHIBIT B

[Letterhead of Jack Hyder]

[Closing Date]

Wiley Bros. – Aintree Capital, LLC
201 4th Avenue North
Nashville, Tennessee 37244

Bass, Berry & Sims PLC
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238

[Bond Insurer]

Re: The City of Bristol, Tennessee (the "Municipality") – \$23,910,000 Electric System Revenue Bonds, Series 2005 (the "Bonds")

Ladies and Gentlemen:

I have acted as counsel to the Municipality in connection with the issuance, execution, delivery and sale of the Bonds, authorized and issued by the Municipality pursuant to a resolution of the Board of City Council of the Municipality, adopted on June 7, 2005 (the "Resolution") and the sale of the Bonds by the Municipality to Wiley Bros. – Aintree Capital, LLC, Nashville, Tennessee (the "Underwriter") pursuant to a Bond Purchase Agreement, dated July 15, 2005 by and between the Municipality and the Underwriter (the "Bond Purchase Agreement"). I have been requested by the Municipality to render this opinion pursuant to Section 5(b)(iii) of the Bond Purchase Agreement. All capitalized terms used but not defined herein shall have the meanings assigned to them in the Bond Purchase Agreement.

In connection with this opinion, I have reviewed the following:

1. The Resolution, and all public notices relating thereto;
2. Such minutes and records of the Municipality as I have deemed necessary to render the opinion set forth herein;
3. The Bond Purchase Agreement;
4. The Preliminary Official Statement, dated July 13, 2005 and the Official Statement, dated July 15, 2005, published and distributed in connection with the sale of the Bonds (the "Official Statement"); and
5. Such other documents and matters of fact and law as I have deemed necessary in order to render the opinion set forth herein.

As to various issues of fact, I have relied upon the representations and warranties of the Municipality contained in the Bond Purchase Agreement and upon statements and certificates of officers of the Municipality without independent verification or investigation.

Based on my examination, I am of the opinion, as of the date hereof, as follows:

1. The Municipality is duly incorporated pursuant to the laws of the State of Tennessee, and, under applicable law, has all requisite power and authority and all necessary licenses and permits to own and operate its properties, to carry on its activities as now conducted and as presently proposed to be conducted and enter into and perform its obligations under the Resolution and the Bond Purchase Agreement. Except as set forth in the Bond Purchase Agreement, the Resolution hereinabove described has not been amended, modified or supplemented.

2. The Resolution has been duly and lawfully adopted by the City Council of the Municipality at a meeting duly and regularly noticed, called and held with a quorum present and acting throughout, in compliance with Section 8-44-101 et seq., Tennessee Code Annotated, as amended, and has not been amended, modified or supplemented, except as set forth in the Bond Purchase Agreement, and is in full force and effect.

3. To the best of my knowledge, there is no litigation or other legal or governmental action, proceeding, inquiry or investigation of any nature pending on the Closing Date, or threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, application of the proceeds thereof, or the payment, collection or application of income or revenues of the Municipality's electric system (the "System") or the pledge thereof to the payment of the Bonds pursuant to the Resolution; seeking to restrain or enjoin the execution, delivery or performance of the Bond Purchase Agreement; in any manner questioning the proceedings or authority pursuant to which the Bonds are authorized or issued; in any manner questioning or relating to the validity of the Bonds, the Resolution or the Bond Purchase Agreement; contesting in any way the completeness or accuracy of the Official Statement; in any way contesting the corporate existence or boundaries of the Municipality or the title of its present officers to their respective offices; or contesting the powers of the Municipality or its authority with respect to the Bonds, the Resolution, the Bond Purchase Agreement or the Official Statement, or any act to be done or documents or certificates to be executed or delivered in connection with any of them.

4. To the best of my knowledge, the execution and delivery of the Bond Purchase Agreement and the Bonds, the adoption of the Resolution, and the compliance by the Municipality with the terms and provisions thereof, will not conflict with, or result in any violation of any provision of the Resolution or similar incorporating or governing documents of the Municipality or of any amendments to any of the foregoing or any indenture, mortgage, deed of trust or other agreement or instrument to which the Municipality is a party or by which it or its properties are bound and will not violate any decree, order, injunction, judgment, determination or award to which the Municipality or its properties are subject.

5. To the best of my knowledge, the Municipality is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and which are material to its properties, operations, finances; and the execution of the documents, taking of the actions, and consummating the transactions described herein will not cause the Municipality to fail to be in such compliance.

No special, local or private act or legislation has been passed by the General Assembly of the State of Tennessee applicable to the Municipality affecting its power to issue the Bonds or pay the principal of, premium, if any, interest on the Bonds when due.

Because the primary purpose of my professional engagement as counsel to the Municipality was not to establish factual matters and because of the wholly or partially non-legal character of many of the determinations involved in the preparation of the Official Statement, I am not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and make no representation that I have independently verified the accuracy, completeness or fairness of such statements. However, in my capacity as counsel to the Municipality, I have had conferences with the Municipality and others, during which conferences contents of the Official Statement and related matters were discussed. Based on my participation in the above-mentioned conferences, and, in reliance thereon, and on the documents and certifications (as set forth above), I advise you that nothing has come to my attention that would lead me to believe that the Official Statement as of its date and as of the date of this opinion (except for any financial or statistical material included therein, as to which we express no opinion or view) contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

I hereby certify that James E. Messimer and Robert L. Wilson, Jr. are the duly qualified and acting Mayor and City Recorder, respectively, of the Municipality, and that each of the foregoing has full power to act as such officers on behalf of the Municipality in connection with the execution and delivery of the Bonds.

I express no opinion herein other than as to the law of the State of Tennessee. This opinion is rendered solely for your information in connection with the above-referenced transaction and may not be delivered or quoted to any other person or relied upon for any other purpose without my prior written consent.

Yours very truly,

Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
212.668.0340

A member of Ambac Financial Group, Inc.

COMMITMENT FOR FINANCIAL GUARANTY INSURANCE

Obligor: **CITY OF BRISTOL, TENNESSEE**

Commitment Number: **28952**

Commitment Date: **July 12, 2005**

Expiration Date: **October 10, 2005**

Obligations: **\$24,000,000*** Electric System Revenue Bonds, Series 2005, dated the Date of Delivery, and maturing on September 1st, in the years 2007 through 2035, both inclusive.

Insurance premium: 0.342% of the total principal and interest due on the Obligations (Fitch, Inc., Moody's Investors Service and Standard & Poor's Credit Markets Services assess separate rating fees which are payable directly to them. Each rating agency will bill separately and all questions regarding the payment of such fees must be addressed to the applicable agency.)

Ambac Assurance Corporation ("Ambac"), a Wisconsin Stock Insurance Corporation,

hereby commits to issue a Financial Guaranty Insurance Policy (the "Policy") relating to the above-described debt obligations (the "Obligations"), substantially in the form imprinted in this Commitment, subject to the terms and conditions contained herein or added hereto (see conditions set forth herein).

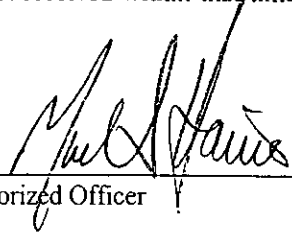
To keep this Commitment in effect after the expiration date set forth above, a request for renewal must be submitted to Ambac prior to such expiration date. Ambac reserves the right to refuse wholly or in part to grant a renewal.

The Financial Guaranty Insurance Policy shall be issued if the following conditions are satisfied:

1. The documents to be executed and delivered in connection with the issuance and sale of the Obligations shall not contain any untrue or misleading statement of a material fact and shall not fail to state a material fact necessary in order to make the information contained therein not misleading.
2. No event shall occur which would permit any purchaser of the Obligations, otherwise required, not to be required to purchase the Obligations on the date scheduled for the issuance and delivery thereof.
3. There shall be no material change in or affecting the Obligations (including, without limitation, the security for the Obligations or the proposed debt service structure for the Obligations) or the financing documents or the official statement (or any similar disclosure document) to be executed and delivered in connection with the issuance and sale of the Obligations from the descriptions or schedules thereof heretofore provided to Ambac.
4. The Obligations shall contain no reference to Ambac, the Policy or the financial guaranty insurance evidenced thereby except as may be approved by Ambac.

* Subject to change, with Ambac's approval.

5. Ambac shall be provided with:
- (a) Executed copies of all financing documents, the official statement (or any similar disclosure document) and the various legal opinions delivered in connection with the issuance and sale of the Obligations, including, without limitation, the unqualified approving opinion of bond counsel rendered by a law firm acceptable to Ambac. The form of Bond Counsel's approving opinion shall also indicate, if applicable, that the Obligations are exempt from federal income taxation, that the Obligor must comply with certain covenants under and pursuant to the Internal Revenue Code and that the Obligor has the legal power to comply with such covenants. Such opinion of bond counsel shall be addressed to Ambac or, in lieu thereof, a letter shall be provided to Ambac to the effect that Ambac may rely on such opinion as if it were addressed to Ambac.
 - (b) Evidence of a wire transfer in an amount equal to the insurance premium at the time of the issuance and delivery of the Obligations.
6. Unless expressly waived in whole or in part by Ambac, the financing documents and the Official Statement shall contain (a) the terms and provisions provided in Ambac's STANDARD PACKAGE transmitted herewith, and (b) any additional oral or written provisions or comments submitted by Ambac.
7. Ambac shall receive a copy of any insurance policy, surety bond, guaranty or indemnification or any other policy, contract or agreement which provides for payment of all or any portion of the debt, the costs of reconstruction, the loss of business income or in any way secures, ensures or enhances the income stream anticipated to pay the Obligations.
8. Any provisions or requirements of the Purchase Contract or Bond Purchase Agreement referencing Ambac must be sent to the attention of Danielle Packer not less than five (5) business days prior to closing. If such provisions or requirements are not received within that time, compliance may not be possible.
9. Must be at least A3 rated.



Authorized Officer

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: CITY OF BRISTOL, TENNESSEE

Policy Number:
24321BE

Obligations: \$23,910,000 Electric System Revenue Bonds, Series 2005, dated their Date of Delivery and consisting of: Premium: \$153,156.06
(AS FURTHER DESCRIBED ON THE REVERSE HEREOF)

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

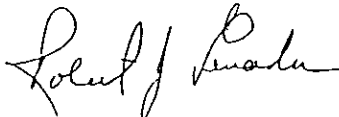
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Effective Date:

July 27, 2005

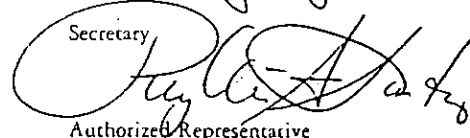
THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

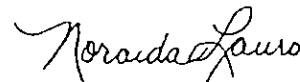
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Secretary



Authorized Representative

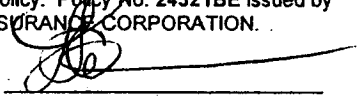


Authorized Officer of Insurance Trustee

Obligations: \$5,145,000 in aggregate principal amount of Serial Bonds, maturing on September 1 in the years 2007 through 2016, both inclusive;
\$1,280,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2018;
\$1,415,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2020;
\$1,560,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2022;
\$1,715,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2024;
\$2,880,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2027;
\$2,150,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2029;
\$4,935,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2033; and
\$2,830,000 in aggregate principal amount of Term Bonds, maturing on September 1, 2035.

The Paying Agent is Wachovia Bank, National Association, Nashville, Tennessee.

The undersigned hereby certifies that this document is a true and correct copy of the Financial Guaranty Insurance Policy. Policy No. 24321BE issued by AMBAC ASSURANCE CORPORATION.



Assistant Secretary

Date: July 25, 2005

Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
212.668.0340

A member of Ambac Financial Group, Inc.

COMMITMENT FOR SURETY BOND

Obligor: **CITY OF BRISTOL, TENNESSEE**

Commitment Number: **SB28953**

Commitment Date: **July 12, 2005**

Expiration Date: **October 10, 2005**

Obligations: **\$24,000,000.00 Electric System Revenue Bonds, Series 2005, dated the Date of Delivery, and maturing on September 1, 2035.**

Surety Amount: **\$2,400,000***

Insurance premium: 2.00% of the surety amount.

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Corporation hereby commits to issue a Surety Bond (the "Commitment") relating to the Debt Service Reserve Fund for the above-described debt obligations (the "Obligations"), substantially in the form attached hereto, subject to the terms and conditions contained herein or added hereto (see conditions set forth herein).

To extend this Commitment after the expiration date set forth above, an oral (subsequently confirmed in writing) or written request for renewal must be submitted to Ambac at least one business day prior to such expiration date. Ambac reserves the right to refuse to grant a renewal or may renew this Commitment subject to additional terms and conditions.

The Surety Bond (the "Surety") shall be issued if the following conditions are satisfied:

1. Ambac shall receive an opinion of counsel or a certificate of an officer of the Obligor or ultimate obligor stating that the information supplied to Ambac in order to obtain the Surety and the documents to be executed and delivered in connection with the issuance and sale of the Obligations do not contain any untrue or misleading statement of a material fact and do not fail to state a material fact required to be stated therein or necessary in order to make the information contained therein not misleading.
2. No event shall occur which would permit any purchaser of the Obligations, otherwise required, not to be required to purchase the Obligations on the date scheduled for the issuance and delivery thereof.
3. There shall be no material change in or affecting the Obligations, the Obligor or ultimate obligor (including, but not limited to, the security for the Obligations or the proposed debt service structure for the Obligations), the Official Statement, if any (or any similar disclosure document), including any financial statements therein contained, the financing documents or any legal opinions to be executed and delivered in connection with the issuance and sale of the Obligations, or any other information submitted to Ambac in order to obtain the Surety, from the descriptions or schedules thereof heretofore provided to Ambac at any time prior to the issuance of the Obligations and there shall not have occurred

* Subject to change, with Ambac's approval.

- or come to the attention of the Obligor or purchaser any material change of fact or law adverse to the interests of Ambac, unless approved by Ambac in writing.
4. Unless expressly waived in whole or in part by Ambac, the financing documents shall contain a) the terms and provisions provided in the Ambac STANDARD PACKAGE transmitted herewith, and b) any provisions or comments given orally by Ambac.
 5. Ambac will prepare, and the Obligor will execute, a Guaranty Agreement in the form (with such revisions of Ambac and the Obligor agree to) contained in the Standard Package.
 6. **NO LATER THAN FIVE (5) BUSINESS DAYS PRIOR TO CLOSING**, Ambac shall be provided with:
 - a) the final debt service schedule; and
 - b) proposed copies of all financing documents; and
 - c) the proposed official statement (or any similar disclosure document); and
 - d) the proposed various legal opinions delivered in connection with the issuance and sale of the Obligations, including, without limitation, the unqualified approving opinion of bond counsel rendered by a law firm acceptable to Ambac. The form of bond counsel's approving opinion must be acceptable to Ambac. The form of bond counsel's approving opinion shall indicate that the Obligor must comply with certain covenants under and pursuant to the Internal Revenue Code of 1986, as amended and that the Obligor has the legal power to comply with such covenants. Ambac shall also be provided with executed copies of all financing documents, including but not limited to the Official Statement (or any similar disclosure document) and the various legal opinions rendered. The executed opinion of bond counsel shall be addressed to Ambac or in lieu thereof, a letter shall be provided to Ambac to the effect that Ambac may rely on such opinion as if it were addressed to Ambac and such letter shall be delivered with an executed opinion; and
 - e) any provisions of the Purchase Contract or Bond Purchase Agreement referencing Ambac or the Obligor of the Surety in general. If such provisions are not received in a timely manner or if provisions are inserted in the Purchase Contract or Bond Purchase Agreement without Ambac's knowledge, compliance with such provisions may not be possible; and
 - f) a letter from bond counsel or counsel to the purchaser or otherwise from another counsel acceptable to Ambac to the effect that the financing documents, the Official Statement (or any similar disclosure document) and the various legal opinions executed and delivered in connection with the issuance and sale of the Obligations, are substantially in the forms previously submitted to Ambac for review, with only such amendments, modifications or deletions as may be approved by Ambac; and
 - g) a copy of any insurance policy, surety bond, guaranty or indemnification or any other policy, contract or agreement which provides for payment of all or any portion of the debt, the costs of reconstruction, the loss of business income or in any way secures, ensures or enhances the income stream anticipated to pay the Obligations.
 7. Evidence of wire transfer of an amount equal to the payment for the Surety at the time of the issuance and delivery of the Obligations.
 8. An opinion addressed to Ambac by counsel acceptable to Ambac that the Guaranty Agreement is a legal, valid and binding obligation of the Obligor thereof, enforceable in accordance with its terms.
 9. Must be at least A3 rated.



Authorized Officer

The undersigned hereby certifies that this document is a true and correct copy of the Commitment for Financial Guaranty Insurance. Commitment No. SB 28953 issued by AMBAC ASSURANCE CORPORATION.


Assistant Secretary

Date 7.12.2005

SURETY BOND

Ambac Assurance Corporation

Statutory Office:
c/o CT Corporation
44 East Mifflin Street
Madison, Wisconsin 53703

Administrative Office:
One State Street Plaza
New York, New York 10004
Telephone: (212) 668-0340

Policy No. SB2122BE

Ambac Assurance Corporation ("Ambac"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and which are required to be made by or on behalf of the City of Bristol, Tennessee (the "Obligor") to Wachovia Bank, National Association, Nashville, Tennessee (the "Paying Agent") as such payments are due by the Obligor but shall not be so paid pursuant to a Resolution of the City Council of the Obligor, dated as of June 7, 2005 (the "Resolution"), authorizing the issuance of \$23,910,000 in aggregate principal amount of Electric System Revenue Bonds, Series 2005 (the "Obligations") of said Obligor and providing the terms and conditions for the issuance of said Obligations; provided that the amount available at any particular time to be paid to the Paying Agent under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of \$1,488,656.25 or the Debt Service Reserve Fund for the Obligations, as that term is defined in the Resolution (the "Reserve Fund Requirement"). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable Paying Agent, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the Obligations.

2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due as required by the Resolution has not been made to the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.

3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Paying Agent, as promptly as reasonably practicable that such

Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.

4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of the date of the Obligations, by and between Ambac and the Obligor (the "Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Coverage. Ambac will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of Resolution.

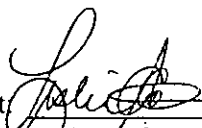
5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004, Telephone: (212) 668-0340.


6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i) September 1, 2035 or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the Obligations pursuant to the Resolution. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin, and any suit hereunder in connection with any payment may be brought only by the Paying Agent within one year after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this 27th day of July, 2005.

Ambac Assurance Corporation

Attest: 
Title: Assistant Secretary

By: 
Title: Vice President

Attachment 1

Surety Bond No. SB2122BE

DEMAND FOR PAYMENT

, 200_

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: General Counsel

Reference is made to the Surety Bond No. SB2122BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Paying Agent hereby certifies that:

(a) Payment by the Obligor to the Paying Agent was due on _____ [a date not less than one (1) day prior to the applicable payment date for the Obligations] under the Resolution attached hereto as Exhibit A, in an amount equal to \$_____ (the "Amount Due"). The Amount Due is payable to the Owners of the Obligations on _____.

(b) \$_____ has been deposited in the _____ [fund/account] from moneys paid by the Obligor or from other funds legally available to the Paying Agent for payment to the Owners of the Obligations, which amount is \$_____ less than the Amount Due (the "Deficiency").

(c) The Paying Agent has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Paying Agent hereby requests that payment of the Deficiency (up to but not in excess of the Surety Bond Coverage) be made by Ambac under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond:

_____ [Paying Agent's Account]

[Paying Agent]

By: _____

Its: _____

Attachment 2

Surety Bond No. SB2122BE

NOTICE OF REINSTATEMENT

, 200_

[Paying Agent]

[Address]

Reference is made to the Surety Bond No. SB2122BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

Ambac hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Guaranty Agreement and as of the date hereof the Surety Bond Coverage is \$_____, subject to a reduction as the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Resolution.

AMBAC ASSURANCE CORPORATION

Attest: _____
Title: _____

By: _____
Title: _____



CERTIFICATE OF BOND INSURER

In connection with the issuance of \$23,910,000 in aggregate principal amount of the City of Bristol, Tennessee (the "Obligor"), Electric System Revenue Bonds, Series 20005, dated their date of delivery (the "Obligations"), Ambac Assurance Corporation ("Ambac") is issuing a Surety (the "Surety") and a financial guaranty insurance policy (the "Policy"). The Surety guarantees payment of an amount not to exceed \$1,488,656.25 to fund the Reserve Requirement (as defined in the Surety), all as more fully set out in the Surety, and the Policy guarantees the payment of principal of and interest when due on the Obligations, all as more fully set out in the Policy.

On behalf of Ambac, the undersigned hereby certifies that:

i) the Surety is an unconditional and recourse obligation of Ambac to pay the scheduled payments of interest and principal on the Obligations in the event a draw on the Debt Service Reserve Fund is required under the Resolution and the amount credited to such Debt Service Reserve Fund is insufficient to make such payment (up to but not in excess of the Surety Coverage as defined in the Surety);

ii) the Policy is an unconditional and recourse obligation of Ambac (enforceable by or on behalf of the holders of the Obligations) to pay the scheduled payments of interest and principal on the Obligations in the event of a Nonpayment as defined in the Policy;

iii) the premiums of \$29,773.13 for the Surety and \$153,156.06 for the Policy were determined in arm's length negotiations in accordance with our standard procedures, are required to be paid as a condition to the issuance of the Surety and the Policy, and represent reasonable charges for the transfer of credit risk;

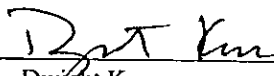
iv) no portion of such premiums represents a payment for any direct or indirect services other than the transfer of credit risk, including costs of underwriting or remarketing the Obligations or the cost of insurance for casualty of Obligation financed property;

v) we are not co-obligors on the Obligations and we do not reasonably expect that we will be called upon to make any payment under the Surety or the Policy; and

vi) the Obligor is not entitled to a refund of any portion of the premiums for the Surety or the Policy in the event that the Obligations are retired prior to their stated maturity.

IN WITNESS WHEREOF, Ambac Assurance Corporation has caused this certificate to be executed in its name on this 27th day of July, 2005 by one of its officers duly authorized as of such date.

AMBAC ASSURANCE CORPORATION

By: 
Dwight Kwa
Title: Vice President and
Assistant General Counsel

Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
212.668.0340

A member of the Ambac Financial Group, Inc.

July 27, 2005

City of Bristol, Tennessee
2470 Volunteer Parkway
Bristol, Tennessee 37620

Wiley Bros. – Aintree Capital, LLC
40 Burton Hills Boulevard
Nashville, Tennessee 37215

Bass, Berry & Sims PLC
315 Deaderick Street
Nashville, Tennessee 37238

Wachovia Bank, National Association
2525 West End Avenue
Nashville, Tennessee 37203

Ambac

Ladies and Gentlemen:

This opinion has been requested of the undersigned, a Vice President and an Assistant General Counsel of Ambac Assurance Corporation, a Wisconsin stock insurance corporation ("Ambac Assurance"), in connection with the issuance by Ambac Assurance of a certain Financial Guaranty Insurance Policy (the "Policy"), and a Surety (the "Surety"), each effective as of the date hereof. The Policy insures \$23,910,000 in aggregate principal amount of the City of Bristol, Tennessee (the "Obligor"), Electric System Revenue Bonds, Series 20005, dated their date of delivery (the "Obligations"), and the Surety guarantees payment of an amount not to exceed \$1,488,656.25 to fund the Reserve Requirement (as defined in the Surety) established in connection with the Obligations.

In connection with my opinion herein, I have examined the Policy and Surety, such statutes, documents and proceedings as I have considered necessary or appropriate under the circumstances to render the following opinion, including, without limiting the generality of the foregoing, certain statements contained in the Official Statement of the Obligor dated July 15, 2005, relating to the Obligations (the "Official Statement") under the headings "THE BOND INSURER AND THE POLICY", "APPENDIX G – FORM OF DEBT SERVICE RESERVE FUND SURETY BOND" and "APPENDIX E – FORM OF FINANCIAL GUARANTY INSURANCE POLICY".

Based upon the foregoing and having regard to legal considerations I deem relevant, I am of the opinion that:

1. Ambac Assurance is a stock insurance corporation duly organized and validly existing under the laws of the State of Wisconsin and duly qualified to conduct an insurance business in the State of Tennessee.
2. Ambac Assurance has full corporate power and authority to execute and deliver the Policy and the Surety, and the Policy and the Surety have been duly authorized, executed and delivered by Ambac Assurance and constitute legal, valid and binding obligations of Ambac Assurance enforceable in accordance with their terms except to the extent that the enforceability (but not the validity) of such obligations may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar law or enactment now or hereafter enacted affecting the enforcement of creditors' rights.
3. The execution and delivery by Ambac Assurance of the Policy and the Surety will not, and the consummation of the transactions contemplated thereby and the satisfaction of

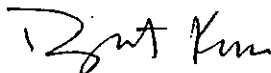
Ambac

the terms thereof will not, conflict with or result in a breach of any of the terms, conditions or provisions of the Certificate of Authority, Articles of Incorporation or By-Laws of Ambac Assurance, or any restriction contained in any contract, agreement or instrument to which Ambac Assurance is a party or by which it is bound or constitute a default under any of the foregoing.

4. Proceedings legally required for the issuance of the Policy and the Surety have been taken by Ambac Assurance and licenses, orders, consents or other authorizations or approvals of any governmental boards or bodies legally required for the enforceability of the Policy and the Surety have been obtained; any proceedings not taken and any licenses, authorizations or approvals not obtained are not material to the enforceability of the Policy or the Surety.
5. The statements contained in the Official Statement under the heading "THE BOND INSURER AND THE POLICY", insofar as such statements constitute summaries of the matters referred to therein, accurately reflect and fairly present the information purported to be shown and, insofar as such statements describe Ambac Financial Group, Inc. and Ambac Assurance, fairly and accurately describe Ambac Financial Group, Inc. and Ambac Assurance.
6. The forms of Policy and Surety contained in the Official Statement under the headings "APPENDIX G – FORM OF DEBT SERVICE RESERVE FUND SURETY BOND" and "APPENDIX E – FORM OF FINANCIAL GUARANTY INSURANCE POLICY" are a true and complete copy of the form of Policy and a true form of the Surety.

The opinions expressed herein are solely for your benefit, and may not be relied upon by any other person.

Very truly yours,



Dwight Kwa
Vice President and
Assistant General Counsel

GUARANTY AGREEMENT

GUARANTY AGREEMENT dated as of July 27, 2005 by and between CITY OF BRISTOL, TENNESSEE, a public body corporate organized and existing under the laws of the State of Tennessee (the "Obligor"); and AMBAC ASSURANCE CORPORATION ("Ambac"), a Wisconsin domiciled stock insurance corporation.

WITNESSETH:

WHEREAS, the Obligor has or will issue \$23,910,000 in aggregate principal amount of Electric System Revenue Bonds, Series 2005, dated their Date of Delivery (the "Obligations"); and

WHEREAS, Ambac will issue its Surety Bond (the "Surety Bond"), substantially in the form set forth in Annex A to this Agreement, guaranteeing certain payments by the Obligor subject to the terms and limitations of the Surety Bond; and

WHEREAS, to induce Ambac to issue the Surety Bond, the Obligor has agreed to pay the premium for such Surety Bond and to reimburse Ambac for all payments made by Ambac under the Surety Bond from Legally Available Funds, all as more fully set forth in this Agreement; and

WHEREAS, the Obligor understands that Ambac expressly requires the delivery of this Agreement as part of the consideration for the execution by Ambac of the Surety Bond; and

NOW, THEREFORE, in consideration of the premises and of the agreements herein contained and of the execution of the Surety Bond, the Obligor and Ambac agree as follows:

ARTICLE I DEFINITIONS; SURETY BOND

Section 1.01 Definitions. Except as otherwise expressly provided herein or unless the context otherwise requires, the terms which are capitalized herein shall have the meanings specified in Annex B hereto.

Section 1.02 Surety Bond.

(a) Ambac will issue the Surety Bond in accordance with and subject to the terms and conditions of the Commitment.

(b) The maximum liability of Ambac under the Surety Bond and the coverage and term thereof shall be subject to and limited by the Surety Bond Coverage and the terms and conditions of the Surety Bond.

(c) Payments made under the Surety Bond will reduce the Surety Bond Coverage to the extent of that payment, provided that the Surety Bond Coverage shall be automatically reinstated to the extent of the reimbursement of principal by the Obligor of any payment made by Ambac. Ambac shall notify the Paying Agent in writing no later than the fifth (5th) day following the reimbursement by the Obligor that the Surety Bond has been reinstated to the extent of such reimbursement.

Section 1.03 Premium. In consideration of Ambac agreeing to issue the Surety Bond hereunder, the Obligor hereby agrees to pay or cause to be paid from Legally Available Funds the premium set forth in the Commitment.

Section 1.04 Certain Other Expenses. The Obligor will pay all reasonable fees and disbursements of Ambac's counsel related to any modification of this Agreement or the Surety Bond.

ARTICLE II

REIMBURSEMENT OBLIGATIONS OF OBLIGOR AND SECURITY THEREFORE

Section 2.01 Reimbursement for Payments Under the Surety Bond and Expenses.

(a) The Obligor will reimburse Ambac, from Legally Available Funds within the Reimbursement Period, without demand or notice by Ambac to the Obligor or any other person, to the extent of each Surety Bond Payment with interest on each Surety Bond Payment from and including the date made to the date of the reimbursement by the Obligor at the Effective Interest Rate. The Obligor agrees that it shall make monthly level principal repayments for each Surety Bond Payment during the Reimbursement Period. Interest on each Surety Bond Payment shall be paid monthly during the Reimbursement Period. To the extent that interest payments due hereunder are not paid on a monthly basis, or are not paid as each principal repayment is made, interest shall accrue on such unpaid amounts at a rate equal to the Effective Interest Rate.

(b) The Obligor also agrees to reimburse Ambac, from Legally Available Funds, immediately and unconditionally upon demand for all reasonable expenses incurred by Ambac in connection with the Surety Bond and the enforcement by Ambac of the Obligor's obligations under this Agreement together with interest on all such expenses from and including the date which is 30 days from the date a statement for such expenses is received by the Obligor incurred to the date of payment at the rate set forth in subsection (a) of this Section 2.01.

Section 2.02 Allocation of Payments. Ambac and the Obligor hereby agree that each repayment of principal received by Ambac from or on behalf of the Obligor as a reimbursement to Ambac as required by Section 2.01(a) hereof shall be applied to reinstate all or a portion of the Surety Bond Coverage to the extent of such repayment. Any interest payable pursuant to Section 2.01(a) hereof shall not be applied to the reinstatement of any portion of the Surety Bond Coverage.

Section 2.03 Security for Payments; Instruments of Further Assurance. To the extent, but only to the extent, that the Resolution pledges to the Owners or any paying agent therefor, or grants a security interest or lien in or on any collateral property, revenue or other payments ("Collateral and Revenues") in order to secure the Obligations or provide a source of payment for the Obligations, the Obligor hereby grants to Ambac a security interest in or lien on, as the case may be, and pledges to Ambac all such Collateral and Revenues as security for payment of all amounts due hereunder, which security interest, lien and/or pledge created or granted under this Section 2.03 shall be subordinate only to the interests of the Owners and any paying agent therefor in such Collateral and Revenues. The Obligor agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all financing statements, if applicable, and all other further instruments as may be required by law or as shall reasonably be requested by Ambac for the perfection of the security interest, if any, granted under this Section 2.03 and for the preservation and protection of all rights of Ambac under this Section 2.03.

Section 2.04 Unconditional Obligation. The obligations of the Obligor hereunder are absolute and unconditional and will be paid or performed strictly in accordance with this Agreement, irrespective of:

(a) any lack of validity or enforceability of, or any amendment or other modification of, or waiver with respect to the Resolution or the Obligations;

(b) any exchange, release or nonperfection of any security interest in property securing the Obligations or this Agreement or any obligations hereunder;

(c) any circumstances which might otherwise constitute a defense available to, or discharge of, the Obligor with respect to the Obligations;

(d) whether or not such obligations are contingent or matured, disputed or undisputed, liquidated or unliquidated.

ARTICLE III EVENTS OF DEFAULT; REMEDIES

Section 3.01 Events of Default. The following events shall constitute Events of Default hereunder:

(a) The Obligor shall fail to pay to Ambac any amount payable under Sections 1.04 and 2.01 hereof and such failure shall have continued for a period in excess of the Reimbursement Period;

(b) Any material representation or warranty made by the Obligor hereunder or under the Resolution or any statement in the application for the Surety Bond or any report, certificate, financial statement or other instrument provided in connection with the Commitment, the Surety Bond or herewith shall have been materially false at the time when made;

(c) Except as otherwise provided in this Section 3.01, the Obligor shall fail to perform any of its other obligations under this Agreement, provided that such failure continues for more than thirty (30) days after receipt by the Obligor of notice of such failure to perform;

(d) The Obligor shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of, or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, paying agent, custodian, sequestrator or similar official for the Obligor or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take action for the purpose of effecting any of the foregoing; or

(e) An involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Obligor, or of a substantial part of its property, under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law or (ii) the appointment of a receiver, paying agent, custodian, sequestrator or similar official for the Obligor or for a substantial part of its property; and such proceeding or petition shall continue undismissed for sixty (60) days or an order or decree approving or ordering any of the foregoing shall continue unstayed and in effect for thirty (30) days.

Section 3.02 Remedies. If an Event of Default shall occur and be continuing, then Ambac may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due under this Agreement or any related instrument and enforce any obligation, agreement or covenant of the Obligor under this Agreement; provided, however, that Ambac may not take any action to direct or require acceleration or other early redemption of the Obligations or adversely affect the rights of the Owners. All rights and remedies of Ambac under this Section 3.02 are

cumulative and the exercise of any one remedy does not preclude the exercise of one or more of the other available remedies.

ARTICLE IV SETTLEMENT

Ambac shall have the exclusive right to decide and determine whether any claim, liability, suit or judgment made or brought against Ambac, the Obligor or any other party on the Surety Bond shall or shall not be paid, compromised, resisted, defended, tried or appealed, and Ambac's decision thereon, if made in good faith, shall be final and binding upon the Obligor. An itemized statement of payments made by Ambac, certified by an officer of Ambac, or the voucher or vouchers for such payments, shall be prima facie evidence of the liability of the Obligor, and if the Obligor fails to reimburse Ambac, pursuant to subsection (b) of Section 2.01 hereof, upon the receipt of such statement of payments, interest shall be computed on such amount from the date of any payment made by Ambac at the rate set forth in subsection (a) of Section 2.01 hereof.

ARTICLE V MISCELLANEOUS

Section 5.01 Computations. All computations of premium, interest and fees hereunder shall be made on the basis of the actual number of days elapsed over a year of 360 days.

Section 5.02 Exercise of Rights. No failure or delay on the part of Ambac to exercise any right, power or privilege under this Agreement and no course of dealing between Ambac and the Obligor or any other party shall operate as a waiver of any such right, power or privilege, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which Ambac would otherwise have pursuant to law or equity. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances, or constitute a waiver of the right of the other party to any other or further action in any circumstances without notice or demand.

Section 5.03 Amendment and Waiver. Any provision of this Agreement may be amended, waived, supplemented, discharged or terminated only with the prior written consent of the Obligor and Ambac. The Obligor hereby agrees that upon the written request of the Paying Agent, Ambac may make or consent to issue any substitute for the Surety Bond to cure any ambiguity or formal defect or omission in the Surety Bond which does not materially change the terms of the Surety Bond nor adversely affect the rights of the Owners, and this Agreement shall apply to such substituted Surety Bond. Ambac agrees to deliver to the Obligor and to the company or companies, if any, rating the Obligations, a copy of such substituted Surety Bond.

Section 5.04 Successors and Assigns; Descriptive Headings.

(a) This Agreement shall bind, and the benefits thereof shall inure to, the Obligor and Ambac and their respective successors and assigns; provided, that the Obligor may not transfer or assign any or all of its rights and obligations hereunder without the prior written consent of Ambac.

(b) The descriptive headings of the various provisions of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 5.05 Other Sureties. If Ambac shall procure any other surety to reinsure the Surety Bond, this Agreement shall inure to the benefit of such other surety, its successors and assigns, so as to give to it a direct right of action against the Obligor to enforce this Agreement, and "Ambac," wherever used herein, shall be deemed to include such reinsuring surety, as its respective interests may appear.

Section 5.06 Signature on Bond. The Obligor's liability shall not be affected by its failure to sign the Surety Bond nor by any claim that other indemnity or security was to have been obtained nor by the release of any indemnity, nor the return or exchange of any collateral that may have been obtained.

Section 5.07 Waiver. The Obligor waives any defense that this Agreement was executed subsequent to the date of the Surety Bond, admitting and covenanting that such Surety Bond was executed pursuant to the Obligor's request and in reliance on the Obligor's promise to execute this Agreement.

Section 5.08 Notices, Requests, Demands. Except as otherwise expressly provided herein, all written notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been given or made when actually received, or in the case of telex or telecopier notice sent over a telex or a telecopier machine owned or operated by a party hereto, when sent, addressed as specified below or at such other address as either of the parties hereto or the Paying Agent may hereafter specify in writing to the others:

| | |
|-------------------------|---|
| If to the Obligor: | CITY OF BRISTOL 2470 Volunteer Parkway Bristol, Tennessee 37620 Attention: General Manager |
| If to the Paying Agent: | Wachovia Bank, National Association 2525 West End Avenue Nashville, Tennessee Attention: Corporate Trust Department |
| If to Ambac: | Ambac Assurance Corporation One State Street Plaza, 19th Floor New York, New York 10004 Attention: General Counsel |

Section 5.09 Survival of Representations and Warranties. All representations, warranties and obligations contained herein shall survive the execution and delivery of this Agreement and the Surety Bond.

Section 5.10 Governing Law. This Agreement and the rights and obligations of the parties under this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State.

Section 5.11 Counterparts. This Agreement may be executed in any number of copies and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument. Complete counterparts of this Agreement shall be lodged with the Obligor and Ambac.

Section 5.12 Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

(signature page follows)

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.

CITY OF BRISTOL, TENNESSEE

Attest: Robert J. White
Title: City Recorder

By: James E. Messimer
Title: Mayor

AMBAC ASSURANCE CORPORATION

Attest: _____
Title: Assistant Secretary

By: _____
Title: Vice President and Assistant
General Counsel

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Agreement to be duly executed and delivered as of the date first above written.


(Seal)

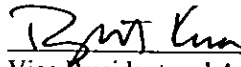
CITY OF BRISTOL, TENNESSEE

Attest: _____
Title: _____

By: _____
Title: Member of the Board of Directors of
Bristol Tennessee Essential Services

AMBAC ASSURANCE CORPORATION

Attest:  _____
Title: Assistant Secretary

By:  _____
Title: Vice President and Assistant
General Counsel

ANNEX A
SURETY BOND

SURETY BOND

Ambac Assurance Corporation

Statutory Office:
c/o CT Corporation
44 East Mifflin Street
Madison, Wisconsin 53703

Administrative Office:
One State Street Plaza
New York, New York 10004
Telephone: (212) 668-0340

Policy No. SB2122BE

Ambac Assurance Corporation ("Ambac"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and which are required to be made by or on behalf of the City of Bristol, Tennessee (the "Obligor") to Wachovia Bank, National Association, Nashville, Tennessee (the "Paying Agent") as such payments are due by the Obligor but shall not be so paid pursuant to a Resolution of the City Council of the Obligor, dated as of June 7, 2005 (the "Resolution"), authorizing the issuance of \$23,910,000 in aggregate principal amount of Electric System Revenue Bonds, Series 2005 (the "Obligations") of said Obligor and providing the terms and conditions for the issuance of said Obligations; provided that the amount available at any particular time to be paid to the Paying Agent under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of \$1,488,656.25 or the Debt Service Reserve Fund for the Obligations, as that term is defined in the Resolution (the "Reserve Fund Requirement"). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable Paying Agent, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the Obligations.
2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due as required by the Resolution has not been made to the Paying Agent; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Paying Agent or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.
3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Paying Agent, as promptly as reasonably practicable that such

Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Paying Agent may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Paying Agent is entitled and able to do so.

4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of the date of the Obligations, by and between Ambac and the Obligor (the "Guaranty Agreement"); provided, that in no event shall such reinstatement exceed the Surety Bond Coverage. Ambac will notify the Paying Agent, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Paying Agent will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of Resolution.


5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004, Telephone: (212) 668-0340.

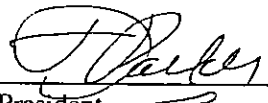
6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i) September 1, 2035 or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the Obligations pursuant to the Resolution. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin, and any suit hereunder in connection with any payment may be brought only by the Paying Agent within one year after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Paying Agent to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this 27th day of July, 2005.

Ambac Assurance Corporation

Attest: 
Title: Assistant Secretary

By: 
Title: Vice President

Attachment 1

Surety Bond No. SB2122BE

DEMAND FOR PAYMENT

, 200_

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: General Counsel

Reference is made to the Surety Bond No. SB2122BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Paying Agent hereby certifies that:

(a) Payment by the Obligor to the Paying Agent was due on _____ [a date not less than one (1) day prior to the applicable payment date for the Obligations] under the Resolution attached hereto as Exhibit A, in an amount equal to \$_____ (the "Amount Due"). The Amount Due is payable to the Owners of the Obligations on _____.

(b) \$_____ has been deposited in the _____ [fund/account] from moneys paid by the Obligor or from other funds legally available to the Paying Agent for payment to the Owners of the Obligations, which amount is \$_____ less than the Amount Due (the "Deficiency").

(c) The Paying Agent has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Paying Agent hereby requests that payment of the Deficiency (up to but not in excess of the Surety Bond Coverage) be made by Ambac under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond:

_____ [Paying Agent's Account]
[Paying Agent]

By: _____
Its: _____

Attachment 2

Surety Bond No. SB2122BE

NOTICE OF REINSTATEMENT

[Paying Agent]

, 200_

[Address]

Reference is made to the Surety Bond No. SB2122BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

Ambac hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Guaranty Agreement and as of the date hereof the Surety Bond Coverage is \$_____, subject to a reduction as the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Resolution.

AMBAC ASSURANCE CORPORATION

Attest: _____
Title: _____

By: _____
Title: _____

ANNEX B

DEFINITIONS

For all purposes of this Agreement, except as otherwise expressly provided herein or unless the context otherwise requires, all capitalized terms shall have the meaning as set out below.

“Agreement” means this Guaranty Agreement.

“Ambac” has the same meaning as set forth in the first paragraph of this Agreement.

“Collateral and Revenues” has the same meaning as set forth in Section 2.03 hereof.

“Commitment” means the Ambac Commitment for Surety Bond in the form attached hereto as Annex C.

“Debt Service Payments” means those payments required to be made by the Obligor which will be applied to payment of principal of and interest on the Obligations.

“Effective Interest Rate” means the lesser of the Reimbursement Rate or the maximum rate of interest permitted by then applicable law; provided, however, that the Effective Interest Rate shall in no event be less than the interest rate on the Obligations.

“Event of Default” shall mean those events of default set forth in Section 3.01 of this Agreement.

“Legally Available Funds” means Net Revenues (as defined in the Resolution) legally available to the Obligor for the payment of its obligations.

“Obligations” has the same meaning as set forth in the second paragraph of this Agreement.

“Obligor” has the same meaning as set forth in the first paragraph of this Agreement.

“Owners” means the registered owner of any Obligation as indicated in the books maintained by the applicable paying agent, the Obligor or any designee of the Obligor for such purpose. The term “Owner” shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment for the Obligations.

“Paying Agent” means Wachovia Bank, National Association, Nashville, Tennessee.

“Reimbursement Period” means, with respect to a particular Surety Bond Payment, the period commencing on the date of such Surety Bond Payment and ending 12 months following such Surety Bond Payment.

“Reimbursement Rate” means Citibank’s prime rate plus two (2) percent per annum, as of the date of such Surety Bond Payment, said “prime rate” being the rate of interest announced from time to time by Citibank, New York, New York, as its prime rate. The rate of interest shall be calculated on the basis of a 360 day year.

“Resolution” means a resolution of the City Council of the Obligor, adopted on June 7, 2005, authorizing the issuance of the Obligations.

“State” means the State of Tennessee.

“Surety Bond” means the surety bond issued by Ambac substantially in the form attached to this Agreement as Annex A.

“Surety Bond Coverage” means the amount available at any particular time to be paid to the Paying Agent under the terms of the Surety Bond, which amount shall never exceed \$

“Surety Bond Payment” means an amount equal to the Debt Service Payment less (i) that portion of the Debt Service Payment paid by the Obligor, and (ii) other funds legally available to the Paying Agent for payment to the Owners, all as certified by the Paying Agent in a demand for payment rendered pursuant to the terms of the Surety Bond.

ANNEX C
COMMITMENT

Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
212.668.0340

A member of Ambac Financial Group, Inc.

COMMITMENT FOR SURETY BOND

Obligor: **CITY OF BRISTOL, TENNESSEE**

Commitment Number: **SB28953**

Commitment Date: **July 12, 2005**

Expiration Date: **October 10, 2005**

Obligations: **\$24,000,000.00 Electric System Revenue Bonds, Series 2005, dated the Date of Delivery, and maturing on September 1, 2035.**

Surety Amount: **\$2,400,000***

Insurance premium: 2.00% of the surety amount.

Ambac Assurance Corporation (Ambac) A Wisconsin Stock Insurance Corporation hereby commits to issue a Surety Bond (the "Commitment") relating to the Debt Service Reserve Fund for the above-described debt obligations (the "Obligations"), substantially in the form attached hereto, subject to the terms and conditions contained herein or added hereto (see conditions set forth herein).

To extend this Commitment after the expiration date set forth above, an oral (subsequently confirmed in writing) or written request for renewal must be submitted to Ambac at least one business day prior to such expiration date. Ambac reserves the right to refuse to grant a renewal or may renew this Commitment subject to additional terms and conditions.

The Surety Bond (the "Surety") shall be issued if the following conditions are satisfied:

1. Ambac shall receive an opinion of counsel or a certificate of an officer of the Obligor or ultimate obligor stating that the information supplied to Ambac in order to obtain the Surety and the documents to be executed and delivered in connection with the issuance and sale of the Obligations do not contain any untrue or misleading statement of a material fact and do not fail to state a material fact required to be stated therein or necessary in order to make the information contained therein not misleading.
2. No event shall occur which would permit any purchaser of the Obligations, otherwise required, not to be required to purchase the Obligations on the date scheduled for the issuance and delivery thereof.
3. There shall be no material change in or affecting the Obligations, the Obligor or ultimate obligor (including, but not limited to, the security for the Obligations or the proposed debt service structure for the Obligations), the Official Statement, if any (or any similar disclosure document), including any financial statements therein contained, the financing documents or any legal opinions to be executed and delivered in connection with the issuance and sale of the Obligations, or any other information submitted to Ambac in order to obtain the Surety, from the descriptions or schedules thereof heretofore provided to Ambac at any time prior to the issuance of the Obligations and there shall not have occurred

* Subject to change, with Ambac's approval.

or come to the attention of the Obligor or purchaser any material change of fact or law adverse to the interests of Ambac, unless approved by Ambac in writing.

4. Unless expressly waived in whole or in part by Ambac, the financing documents shall contain a) the terms and provisions provided in the Ambac STANDARD PACKAGE transmitted herewith, and b) any provisions or comments given orally by Ambac.
5. Ambac will prepare, and the Obligor will execute, a Guaranty Agreement in the form (with such revisions of Ambac and the Obligor agree to) contained in the Standard Package.
6. **NO LATER THAN FIVE (5) BUSINESS DAYS PRIOR TO CLOSING**, Ambac shall be provided with:
 - a) the final debt service schedule; and
 - b) proposed copies of all financing documents; and
 - c) the proposed official statement (or any similar disclosure document); and
 - d) the proposed various legal opinions delivered in connection with the issuance and sale of the Obligations, including, without limitation, the unqualified approving opinion of bond counsel rendered by a law firm acceptable to Ambac. The form of bond counsel's approving opinion must be acceptable to Ambac. The form of bond counsel's approving opinion shall indicate that the Obligor must comply with certain covenants under and pursuant to the Internal Revenue Code of 1986, as amended and that the Obligor has the legal power to comply with such covenants. Ambac shall also be provided with executed copies of all financing documents, including but not limited to the Official Statement (or any similar disclosure document) and the various legal opinions rendered. The executed opinion of bond counsel shall be addressed to Ambac or in lieu thereof, a letter shall be provided to Ambac to the effect that Ambac may rely on such opinion as if it were addressed to Ambac and such letter shall be delivered with an executed opinion; and
 - e) any provisions of the Purchase Contract or Bond Purchase Agreement referencing Ambac or the Obligor of the Surety in general. If such provisions are not received in a timely manner or if provisions are inserted in the Purchase Contract or Bond Purchase Agreement without Ambac's knowledge, compliance with such provisions may not be possible; and
 - f) a letter from bond counsel or counsel to the purchaser or otherwise from another counsel acceptable to Ambac to the effect that the financing documents, the Official Statement (or any similar disclosure document) and the various legal opinions executed and delivered in connection with the issuance and sale of the Obligations, are substantially in the forms previously submitted to Ambac for review, with only such amendments, modifications or deletions as may be approved by Ambac; and
 - g) a copy of any insurance policy, surety bond, guaranty or indemnification or any other policy, contract or agreement which provides for payment of all or any portion of the debt, the costs of reconstruction, the loss of business income or in any way secures, ensures or enhances the income stream anticipated to pay the Obligations.
7. Evidence of wire transfer of an amount equal to the payment for the Surety at the time of the issuance and delivery of the Obligations.
8. An opinion addressed to Ambac by counsel acceptable to Ambac that the Guaranty Agreement is a legal, valid and binding obligation of the Obligor thereof, enforceable in accordance with its terms.
9. Must be at least A3 rated.



Authorized Officer

CITY OF BRISTOL, TENNESSEE

\$23,910,000 ELECTRIC SYSTEM REVENUE BONDS,

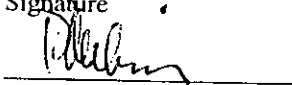
SERIES 2005

CERTIFICATE OF REGISTRATION AGENT AND PAYING AGENT
AS TO AUTHENTICATION AND DELIVERY OF BONDS

The undersigned, Wachovia Bank, National Association, Nashville, Tennessee, as Registration Agent for \$23,910,000 Electric System Revenue Bonds, Series 2005, dated July 27, 2005 (the "Bonds"), of the City of Bristol, Tennessee (the "City") hereby certifies as follows:

1. It has authenticated Bonds as shown on the schedule attached;

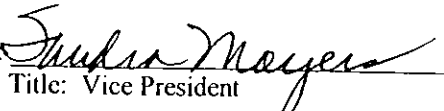
2. Each person named below is an authorized representative of Wachovia Bank, National Association, Nashville, Tennessee, and holds the office listed opposite such representative's name. Each such representative is duly authorized and empowered to authenticate the Bonds on behalf of the undersigned on the date hereof, and the signature appearing opposite the name and office of each such representative is in all respects the true and genuine signature of such representative.

| Name | Office | Signature |
|---------------|----------------|---|
| Paul Williams | Vice President |  |

3. The undersigned has authenticated and delivered the Bonds through The Depository Trust Company "FAST" Program, on behalf of Wiley Bros.-Aintree Capital, LLC, Nashville, Tennessee, the original purchaser of the Bonds.

IN WITNESS WHEREOF, the undersigned has caused this Certificate to be executed by its duly authorized officer and its official seal to be affixed hereto, all as of this 27th day of July, 2005.

WACHOVIA BANK, NATIONAL ASSOCIATION

By: 
Title: Vice President

CITY OF BRISTOL, TENNESSEE

\$23,910,000 ELECTRIC SYSTEM REVENUE BONDS,

SERIES 2005

AUTHENTICATED BONDS

| <u>Bond Number</u> | <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate (Per Annum)</u> |
|------------------------|-------------|-------------------------|--------------------------------------|
| 1 | 2007 | \$440,000 | 3.500% |
| 2 | 2008 | 455,000 | 3.500 |
| 3 | 2009 | 470,000 | 3.500 |
| 4 | 2010 | 485,000 | 3.500 |
| 5 | 2011 | 505,000 | 3.500 |
| 6 | 2012 | 520,000 | 3.250 |
| 7 | 2013 | 540,000 | 3.250 |
| 8 | 2014 | 555,000 | 3.375 |
| 9 | 2015 | 575,000 | 3.500 |
| 10 | 2016 | 600,000 | 3.625 |
| 11 | 2018 | 1,280,000 | 5.000 |
| 12 | 2020 | 1,415,000 | 5.000 |
| 13 | 2022 | 1,560,000 | 4.750 |
| 14 | 2024 | 1,715,000 | 4.750 |
| 15 | 2027 | 2,880,000 | 4.250 |
| 16 | 2029 | 2,150,000 | 5.000 |
| 17 | 2033 | 4,935,000 | 4.375 |
| 18 | 2035 | 2,830,000 | 5.000 |

CITY OF BRISTOL, TENNESSEE

\$23,910,000 ELECTRIC SYSTEM REVENUE BONDS,
SERIES 2005

CLOSING CERTIFICATE OF MAYOR AND CITY RECORDER OF THE MUNICIPALITY AND
MEMBER OF THE BOARD OF DIRECTORS OF BRISTOL TENNESSEE ESSENTIAL SERVICES
RELATING TO THE BONDS

We, the undersigned, James E. Messimer and Robert L. Wilson, Jr., hereby certify that we are the duly qualified and acting Mayor and City Recorder, respectively, of the City of Bristol, Tennessee (the "Municipality") and I, the undersigned, Scott MacMorran, hereby certify that I am a duly qualified and acting Member of the Board of Directors of Bristol Tennessee Essential Services of the Municipality. As such officers, we hereby certify as follows:

DEFINITIONS

The following terms shall, in this Certificate, have the meanings set forth below:

"Board" means the Board of Directors of Bristol Tennessee Essential Services;

"Bond Purchase Agreement" means the Bond Purchase Agreement, dated July 15, 2005, between the Municipality and the Original Purchaser;

"Bonds" means the Municipality's \$23,910,000 Electric System Revenue Bonds, Series 2005, dated July 27, 2005;

"Governing Body" means the City Council of the Municipality;

"Official Statement" means the Official Statement published and distributed in connection with the sale of the Bonds;

"Original Purchaser" means Wiley Bros.-Aintree Capital, LLC;

"Resolution" means the resolution adopted by the Governing Body of the Municipality on June 7, 2005; and

"System" means the electric power distribution system of the Municipality.

CERTIFICATE ON VARIOUS MATTERS

1. Delivered herewith is a copy, certified by the City Recorder of the Municipality, of the Resolution, adopted by the Governing Body of the Municipality at a meeting duly and regularly called and held with a quorum present and acting throughout.

2. The Resolution is as of the date hereof in full force and effect and has not been amended, modified or supplemented. The action of the Governing Body in adopting the Resolution was taken in compliance with and the meeting at which such action was taken was held in compliance with Sections 8-44-101, et seq., Tennessee Code Annotated, as amended.

3. The making and performance of the obligations of the Municipality under the Resolution and the Bond Purchase Agreement, the issuance, execution, sale and delivery of the Bonds, and the distribution of the Official Statement distributed in connection with the sale of the Bonds, do not violate any provision of law, rule or regulation or any decree, writ, order, injunction, judgment, determination or award under any agreement, indenture, or other instrument to which the Municipality is a party or by which the Municipality may be bound.

4. The Municipality has complied with all the requirements and satisfied all the conditions on its part to be performed or satisfied at or prior to the delivery of the Bonds.

5. There is no litigation of any nature now pending, or to our knowledge threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any manner questioning the proceedings or authority pursuant to which the Bonds are authorized or issued, or in any manner questioning or relating to the validity of the Bonds, or contesting in any way the completeness or accuracy of the Official Statement distributed in connection with the sale of the Bonds, or in any way contesting the corporate existence or boundaries of the Municipality or the title of its present officers to their respective offices, or contesting the powers of the Municipality or the Board or their authority with respect to the operation of the System or the collection of the revenues derived from the operation of the System, or the Bonds, the Resolution or the Bond Purchase Agreement, or any act to be done or documents or certificate to be executed or delivered in connection with any of them.

6. To the best of our knowledge, information, and belief, the descriptions and statements contained in the Official Statement were at the time of its publication and distribution, and at the time of the execution of the Bond Purchase Agreement, and are on the date hereof, true and correct in all material respects, and the Official Statement did not at the time of its publication and distribution, and does not on the date hereof, contain an untrue statement of a material fact or omit to state a material fact required to be stated where necessary to make the statements made, in light of the circumstances under which they are made, not misleading.

7. Subsequent to June 30, 2004, there has been no material adverse change in the financial position or results of operations of the System except as set forth in or contemplated by the Official Statement.

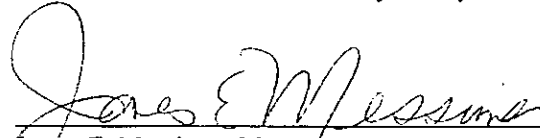
8. The Municipality does not have outstanding any bonds, notes or other obligations payable from or secured by revenues of the System, except the Bonds.

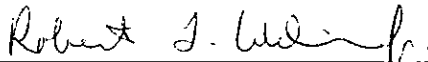
9. Bristol Herald Courier is a newspaper having general circulation within the Municipality.

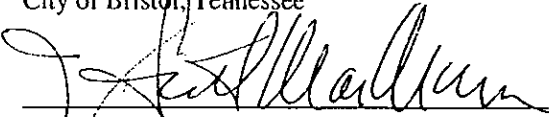
10. The Bonds as executed and delivered by the Municipality, are in the form which the officers of the Municipality were authorized to execute and deliver for and on behalf of the Municipality and are in substantially the same form which is referred to in the Resolution. Each of the Bonds has been executed on behalf of the Municipality by the Mayor and the City Recorder by their respective signatures and each of the Bonds is sealed with a seal of the Municipality.

(signature page follows)

IN WITNESS WHEREOF, we have hereunto set our hands on this 27th day of July, 2005.


James E. Messimer, Mayor
City of Bristol, Tennessee


Robert L. Wilson, Jr., City Recorder
City of Bristol, Tennessee


Scott MacMorran, Member of the Board of Directors
Bristol Tennessee Essential Services

CITY OF BRISTOL, TENNESSEE
\$23,910,000 ELECTRIC SYSTEM REVENUE BONDS,
SERIES 2005

RECEIPT FOR BOND PROCEEDS AND
CERTIFICATE AS TO ARBITRAGE
AND CERTAIN OTHER TAX MATTERS

1. GENERAL STATEMENTS

1.1 The undersigned is a member of the Board of Directors of Bristol Essential Services, which operates an electric transmission and distribution system (the "System") for the City of Bristol, Tennessee (the "Issuer"). This Certificate is executed for the purpose of establishing the reasonable expectations of the Issuer as to future events regarding the Issuer's \$23,910,000 Electric System Revenue Bonds, Series 2005 (the "Bonds"). To the best knowledge and belief of the undersigned, the expectations set forth herein are reasonable.

1.2 The undersigned executes this Certificate pursuant to Section 148(a) of the Code and the regulations promulgated thereunder, including, but not limited to, Section 1.148-2(b) of the Treasury Regulations.

1.3 The undersigned also executes this Certificate in order to establish that the Bonds will not be private activity bonds within the meaning of Section 141(a) of the Code. This Certificate includes certain agreements of the Issuer in order to ensure that the Bonds will not be deemed to be private activity bonds within the meaning of Section 141(a) of the Code.

1.4 The undersigned also executes this Certificate to evidence the Issuer's receipt of the proceeds from the sale of the Bonds.

2. AUTHORIZATION AND PURPOSE

2.1 The Issuer is issuing the Bonds for the purpose of procuring funds for the following uses:

(a) To finance extensions and improvements to the System and to pre-purchase electricity (collectively, the "Project").

(b) To pay certain expenses incurred in connection with the issuance of the Bonds.

2.2 The Bonds are authorized and issued pursuant to Section 7-34-101, et seq. and a resolution of the City Council of the Issuer adopted on June 7, 2005 (the "Resolution").

3. NO OTHER ISSUE

The Issuer did not sell any other obligations (i) during the period beginning 15 days prior to July 15, 2004 (the "Sale Date"), and ending 15 days after the Sale Date, (ii) pursuant to the same plan of financing and (iii) payable from the same source of funds. Therefore, pursuant to Section 1.150-1(c) of the Treasury Regulations, no other obligations are treated as part of the same issue as the Bonds, and the Bonds constitute a single issue (the "Issue") for purposes of this Certificate.

4. SALE PROCEEDS

4.1 Amount of Sale Proceeds and Net Sale Proceeds. The Issuer is selling the Bonds to Wiley Bros.-Aintree Capital, LLC (the "Underwriter") pursuant to a Bond Purchase Agreement dated as of the Sale Date (the "Bond Purchase Agreement") at a price determined as follows:

| | |
|------------------------------------|-------------------|
| Face Amount of Issue | \$23,910,000.00 |
| MINUS: Underwriter's discount | (117,159.00) |
| PLUS: Net Original Issue Premium | <u>451,855.35</u> |
| PURCHASE PRICE PAID BY UNDERWRITER | \$24,244,696.35 |

4.2 Under Section 1.148-1(b) of the Treasury Regulations, the "sale proceeds" of the Issue are determined as follows:

| | |
|------------------------------------|-------------------|
| Purchase price paid by Underwriter | \$24,244,696.35 |
| PLUS: Underwriter's discount | <u>117,159.00</u> |
| SALE PROCEEDS | \$24,361,855.35 |

Since the Issuer is not depositing any of the sale proceeds of the Issue into a reasonably required reserve or replacement fund under Section 148(d) of the Code and since the Issuer is not treating any portion of the sale proceeds as exempt from yield restriction pursuant to Section 148(e) of the Code as a "minor portion" of the Issue, the "net sale proceeds" of the Issue within the meaning of Section 1.148-1(b) of the Treasury Regulations are also \$24,361,855.35.

4.3 Application of Sale Proceeds. The Issuer will apply the sale proceeds of the Bonds and the pre-issuance accrued interest as follows:

(a) \$59,000.00 is expected to be applied on the date hereof to the payment of costs incurred in connection with the issuance, sale and delivery of the Bonds, with any amounts remaining unspent on such date to be transferred to the Bond Fund;

(b) \$24,002,767.16 will be deposited in the Construction Fund (the "Construction Fund") established under the Resolution and applied to the costs of the Project;

(c) \$117,159.00 will be withheld by the Underwriter to pay the Underwriter's discount;

(d) \$153,156.06 will be paid to Ambac Assurance Corporation ("Ambac") as the premium on the Bond Insurance Policy described herein (the "Policy"); and

(e) \$29,773.13 will be paid to Ambac as the premium for a debt service reserve fund surety bond (the "Surety Bond").

5. ISSUE PRICE

Under Section 1.148-1(b) of the Treasury Regulations, the "issue price" of the Bonds is determined as of the Sale Date, based on reasonable expectations regarding the initial offering price to the public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers), plus accrued interest. Based on the Reoffering Price Certificate of the Underwriter executed on the date hereof, the issue price of the Bonds is \$24,361,855.35.

6. INVESTMENT PROCEEDS

Amounts derived from the investment of funds in the Construction Fund ("investment proceeds") will be held in the Construction Fund and used to finance the Project. Amounts remaining in the Construction Fund after completion of the Project shall be transferred to the Bond Fund and used to pay interest on the Bonds.

As used in this Certificate, "proceeds" of the Issue means sale proceeds, transferred proceeds and investment proceeds.

7. REPLACEMENT PROCEEDS

7.1 Pledged Funds.

(a) Actual Pledged Funds. The Issuer has established or will establish the following funds in which all or a portion of the amounts held therein are directly pledged to pay principal of or interest on the Bonds:

(i) Bond Fund. The Bond Fund is established pursuant to the Resolution. Money deposited in the Bond Fund will be used to pay principal of and interest on the Bonds and any bonds issued on parity therewith ("Parity Bonds"), and the Issuer reasonably expects that there will be no other funds that will be so used. The Bond Fund is used primarily to achieve a proper matching of revenues and debt service within each bond year. Any money deposited in the Bond Fund will be spent within a thirteen-month period beginning on the date of deposit, and any amount received from investment of funds held in the Bond Fund will be spent within a one-year period beginning on the date of receipt. The Bond Fund will be depleted on September 1 of each year.

(ii) Debt Service Reserve Fund.

(A) The Debt Service Reserve Fund (the "Reserve Fund") is established pursuant to the Resolution. The Reserve Fund is established to maintain a reasonable reserve fund to pay debt service in the event the Bond Fund is inadequate for that purpose in any bond year. The money in the Reserve Fund is reserved for the payment of the Bonds and any Parity Bonds and shall be used for no other purpose so long as any of the Bonds or Parity Bonds are outstanding. Any amount received from investment of funds in the Reserve Fund shall be regarded as revenues of the Issue and applied in the same manner as other revenues of the Issue. The funding and maintenance of the Reserve Fund in the manner described below and in the Resolution is reasonably required to provide for the security and payment of the Bonds.

(B) Under the Resolution, the Issuer is required to deposit an amount in the Reserve Fund so that the amount held therein shall be equal to the least of (I) 10% of the aggregate stated principal amount of the Bonds and the Parity Bonds, (II) the maximum aggregate annual principal and interest requirements on the Bonds and the Parity Bonds or (III) 125% of the average aggregate annual principal and interest requirements on the Bonds and the Parity Bonds (the "Debt Service Reserve Requirement"). The Debt Service Reserve Requirement for the Bonds is \$1,488,656.25. The Issuer will satisfy the Debt Service Reserve Requirement by purchasing the Surety Bond, which has a face amount of \$1,488,656.25. In the event any amount is ever deposited in the Reserve Fund and the amount allocated to the Bonds in accordance with Section 1.148-6(e) of the Treasury Regulations exceeds the amount that can be invested at an unrestricted yield, the Issuer shall invest any such excess at a yield that does not exceed the yield on the Bonds unless the Issuer obtains an opinion of nationally recognized bond counsel that such excess may be invested at a yield that exceeds the yield on the Bonds, provided, however, the Issuer, in its discretion, may apply this test on an aggregate basis taking into account the Bonds and any Parity Bonds.

(b) No Negative Pledges. Neither the Resolution nor any other agreement by which the Issuer is bound contains an agreement of the Issuer to maintain an amount of funds at a particular level for the direct or indirect benefit of the holders of the Bonds.

7.2 Bonds Not Outstanding Longer Than Necessary. The term of the Bonds will not be longer than is reasonably necessary for the governmental purpose thereof because the weighted average maturity of the Bonds will not exceed 120% of the average reasonably expected economic life of the Project.

7.3 No Other Replacement Proceeds. Except as described in this Section, the Issuer does not expect that any amounts will be available to the Issuer that are related to the Issue or the Project and that would have been used for the financing of the Project if the proceeds of the Bonds were not to be used for that purpose.

7.4 Gross Proceeds. As used herein, "gross proceeds" means proceeds and replacement proceeds.

8. YIELD ON THE BONDS

8.1 General. For purposes of this Certificate, yield on the Issue is, and shall be, calculated in the manner provided in Section 148(h) of the Code and Section 1.148-4 of the Treasury Regulations. The Issue is treated as a "fixed yield issue" under the Treasury Regulations. Under Section 1.148-4(b) of the Treasury Regulations, yield with respect to the Issue means that discount rate that, when used in computing the present value as of the Issue Date of all unconditional payments of principal, interest and fees expected to be paid for qualified guarantees on the Issue produces an amount equal to the aggregate issue price thereof. The issue price of the Issue is set forth in Section 5 of this Certificate.

8.2 Treatment of Qualified Guarantees. Ambac has issued the Policy guaranteeing the payment of principal of and interest on the Bonds in consideration of a premium payment of \$153,156.06. Ambac has issued the Surety Bond in consideration of a premium payment of \$29,773.13. Each of the Policy and the Surety Bond is a "qualified guarantee" pursuant to Section 1.148-4(f) of the Treasury Regulations because (i) the Issuer reasonably expects that the present value of the portion of the premium paid for the Policy and the Surety Bond will be less than the present value of the expected interest savings on the Bonds as a result thereof, (ii) the Policy and the Surety Bond impose secondary liability for the payment of principal and compound accreted value of and interest on the Bonds to Ambac and, therefore, shifts all of the credit risk for all of the payments of principal and interest on the Bonds to Ambac, (iii) Ambac has no interest in the projects refinanced by the Bonds and will not otherwise use any portion of the proceeds of the Bonds, and (iv) the premiums for the Policy and the Surety Bond are arm's length charges for the transfer of credit risk. Based on the foregoing, the amounts paid to Ambac by or on behalf of the Issuer as the premium for the Policy and the Surety Bond are treated as additional interest paid on the Bonds on the Issue Date for the purpose of determining yield on the Bonds.

8.3 Yield. The yield on the Issue, calculated as described above, is 4.330831%.

9. REIMBURSEMENT ALLOCATIONS

A portion of the proceeds of the Bonds deposited in the Construction Fund will be used within 30 days of the Issue Date to reimburse the Issuer for expenditures paid by the Issuer with respect to the Project prior to the date hereof (the "Original Expenditures"). The amount of such proceeds being used to reimburse the District and the costs with respect to which such reimbursement relates are identified on Exhibit A attached hereto. Under Section 1.150-2(d) of the Treasury Regulations, the allocation of such amount for the purpose of reimbursing the Issuer for the Original Expenditures will be treated as an expenditure of the proceeds of the Bonds on the Issue Date because:

(a) All of the Original Expenditures were capital expenditures, preliminary expenditures (within the meaning of Section 1.150-2(f)(2) of the Treasury Regulations) or costs of issuance of the Bonds.

(b) The Original Expenditures were paid by the Issuer not earlier than 60 days before the adoption on May 25, 2005 by the Issuer of a resolution of its official intent under Section 1.150-2(e) of the Treasury Regulations, a copy of which resolution is attached hereto as Exhibit B, to finance the Original Expenditures; and the Issue Date is not later than 18 months after the later of the date the Issuer made the Original Expenditure or the date that the Project is placed in service within the meaning of Section 1.150-2(c) of the Treasury Regulations.

10. EXCEPTION FROM YIELD RESTRICTION DURING TEMPORARY PERIODS

10.1 Three Year Temporary Period. The Issuer reasonably expects the following with respect to proceeds of the Bonds deposited and held in the Construction Fund:

(a) All proceeds held in the Construction Fund are needed for the purpose of paying the capital costs relating to the Project;

(b) At least 85% of the net sale proceeds of the Bonds will be allocated to expenditures for capital costs relating to the Project on or before three years from the date hereof;

(c) Within six months from the Issue Date, the Issuer will have incurred substantial binding obligations to a third party to expend with respect to capital costs relating to the Project at least 5% of the net sale proceeds of the Bonds; and

(d) The work on the Project and the expenditure of the net sale proceeds of the Bonds is expected to proceed with due diligence.

Thus, under Section 1.148-2(e)(1) of the Treasury Regulations, proceeds held in the Construction Fund need not be yield restricted during the three-year period beginning on the Issue Date.

10.2 Temporary Period for Proceeds Used to Pay Costs of Issuance. Net sale proceeds used to pay costs of issuance qualify for the 13-month temporary period set forth in Section 1.148-9(d)(2) of the Treasury Regulations and need not be yield restricted during the 13-month period beginning on the date hereof. All net sale proceeds to be used to pay costs of issuance of the Issue are expected to be disbursed on the date hereof.

11. REBATE.

11.1 The Issuer expects that all of the gross proceeds of the Issue will qualify for an exception to rebate (as described below) or will be invested at a yield that will not produce any "rebate amount," and that the Issuer will not be required to rebate any arbitrage to the United States pursuant to Section 148(f) of the Code. Nevertheless, pursuant to the Resolution, the Issuer has covenanted to calculate the amount of arbitrage, if any, that must be rebated to the United States in accordance with Section 148(f) of the Code.

11.2 Two-Year Construction Exception.

(a) The Issuer does not expect that earnings on the "available construction proceeds" of the Bonds will be subject to rebate pursuant to Section 148(f)(4)(C) of the Code and Section 1.148-7(e) of the Treasury Regulations for the reasons set forth in this Section 11.2.

(b) The Issuer reasonably expects that the amount of "available construction proceeds" of the Bonds, within the meaning of Section 148(f)(4)(C)(vi) of the Code and Section 1.148-7(i) of the Treasury Regulations, which is the issue price of the Bonds, less the portion thereof used to pay costs of issuance, plus the earnings thereon. The Issuer hereby elects to exclude from the definition of "available construction proceeds" earnings on any amounts in the Reserve Fund, as permitted by Section 1.148-7(i)(2) of the Treasury Regulations.

(c) The Bonds will be a "construction issue" within the meaning of Section 148(f)(4)(C)(iv) of the Code and Section 1.148-7(f) of the Treasury Regulations for the following reasons:

(i) The Issuer reasonably expects that at least 75% of the available construction proceeds of the Bonds will be used for capital expenditures that are allocable to the cost of real property (other than the acquisition of land or existing real property) which is owned by a governmental unit; and

(ii) None of the Bonds are "private activity bonds" within the meaning of Section 141 of the Code.

(d) The Issuer reasonably expects that the available construction proceeds of the Bonds will be spent as follows:

(A) At least 10% will be spent within 6 months from the Issue Date;

(B) At least 45% will be spent within 12 months from the Issue Date; and

(C) At least 75% will be spent within 18 months from the Issue Date; and

(D) 100% will be spent within 24 months from the Issue Date, except for any reasonable retainage, which will, in all events be spent within 36 months from the Issue Date.

12. PREPAYMENTS FOR ELECTRICITY. The Issuer expects that a portion of the sale proceeds of the Bonds will be used to pre-purchase electricity from the Tennessee Valley Authority ("TVA"). All of the electricity so purchased will be furnished to retail electric customers of the System.

13. NO ABUSIVE ARBITRAGE DEVICES. Neither the Issuer nor any person related to it within the meaning of Section 144(a)(3) or Section 147(a) of the Code (a "Related Person") has employed a device or entered into any arrangements or understandings in connection with the issuance of the Bonds or in connection with any transaction or series of transactions related to the issuance of the Bonds to obtain a material financial advantage (based on arbitrage or otherwise). Neither the Issuer nor any Related Person will realize any material financial advantage (based on arbitrage or otherwise) in connection with the issuance of the Bonds or in connection with any transaction or series of transactions related to the issuance of the Bonds. Neither the Issuer nor a Related Person has or will receive a rebate of or credit resulting from any payments having been made in connection with the issuance of the Bonds.

14. PRIVATE ACTIVITY BOND CERTIFICATIONS

14.1 No portion of the System will be used, either directly or indirectly, in a trade or business carried on by a non-governmental person. No portion of the System is owned by or leased to a non-governmental person, or is operated under an arrangement whereby a non-governmental person has actual or beneficial use thereof under a management contract, incentive payment contract, output contract or other arrangement.

14.2 The Bonds are payable solely from and secured by a pledge of the income and revenue to be derived from the operation of the System, subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System.

14.3 None of the Bonds is secured by any property, either real or personal, whatsoever, except as provided herein.

14.4 The System, and all portions thereof, are intended to be available and in fact are reasonably available for use on the same basis by natural persons not engaged in a trade or business as they are for nongovernmental persons in their trades or businesses. The System will not be used under arrangements that convey priority rights or other preferential benefits to nongovernmental persons. All the services of the System are available on the basis of rates that are generally applicable and uniformly applied and no customers of the System receive service under a specially negotiated rate arrangement.

14.5 Principal of and interest on the Bonds, therefore, are expected to be paid from the sources described above and not by any payments received by the Issuer with respect to property used for a private business use. Because there is no security or payments for the Bonds except as described above, there is no property or payments that need to be counted for purposes of the private security and private payment tests of Section 141(b)(2) of the Code.

14.6 Private Loan Financing Test. None of the proceeds of the Bonds will be used to make or finance a loan to a non-governmental person. The private loan financing test of Section 141(c) of the Code will therefore not be met.

15. RECEIPT FOR BOND PROCEEDS. By executing this certificate, the undersigned hereby confirms the Issuer's receipt from the Underwriter and the application of the proceeds of the Bonds, as described in Section 4.3 of this Certificate.

(signature page follows)

IN WITNESS WHEREOF, I have hereunto set my hand this July 27, 2005.

BRISTOL TENNESSEE ESSENTIAL SERVICES

By: 
Scott MacMorran,
Director

EXHIBIT A

| | |
|------------------|-----------|
| Engineering Time | 11,933.78 |
|------------------|-----------|

| | |
|--------------------|--|
| Additions to Plant | |
|--------------------|--|

| | |
|-------|------------|
| April | 160,747.72 |
|-------|------------|

| | |
|-----|------------|
| May | 216,794.16 |
|-----|------------|

| | |
|------|--------------|
| June | 1,028,815.94 |
|------|--------------|

| | |
|--------------------------|--------------|
| Total Additions to Plant | 1,406,357.82 |
|--------------------------|--------------|

| | |
|----------------|-----------|
| Mapping System | 48,710.00 |
|----------------|-----------|

| | |
|---------------------|----------------|
| Total Reimbursement | \$1,467,001.60 |
|---------------------|----------------|

EXHIBIT B

A RESOLUTION DECLARING THE INTENT OF BRISTOL, TENNESSEE TO REIMBURSE ITSELF FOR CERTAIN EXPENDITURES RELATING TO ELECTRIC SYSTEM PROJECTS WITH THE PROCEEDS OF BONDS TO BE ISSUED BY THE CITY OF BRISTOL, TENNESSEE.

WHEREAS, it is the intention of the Bristol Tennessee Essential Services (the "Board") to provide for the construction of extensions and improvements to its electric transmission and distribution system (the "System"); and

WHEREAS, it is the intention of the Board to pay all or a portion of the costs associated with said activities by the sale of bonds of the City of Bristol, Tennessee (the "Municipality"); and

WHEREAS, it is anticipated that it will be necessary to make expenditures in payment of said costs prior to the issuance of said bonds or debt obligations; and

WHEREAS, the Board wishes to state its intentions with respect to reimbursements for said expenditures in accordance with the requirements of final regulations applicable thereto promulgated by the United States Department of the Treasury;

NOW, THEREFORE, BE IT RESOLVED by the Board as follows:

Section 1. It is reasonably expected that the Board will reimburse itself for certain expenditures made by the Board in connection with the following activities:

- BTES Service Center improvements, fiber optic cable to King College, Ruthton, and Vance substations, new subdivisions (to include: Grande Harbor, Roger's Meadow, The Reserve, Serenity Ridge, Curtis Morrell Condominiums, Plainview Estates, Bowoods Town Houses, RaceDay Condominiums, and Woodlyn), campground improvements around Bristol Motor Speedway, new mapping system, highway relocation projects, Industrial Park improvements, traffic control improvements, transformers and services for new customers, relocation for existing customers, and substation improvements.
- Legal, fiscal, administrative, architectural and engineering costs incident to the foregoing.

The Board intends to reimburse all such expenditures by causing the Municipality to issue its revenue bonds or other debt obligations. The expenditures made prior to the issuance of said bonds or other debt obligations are expected to be paid from the Board's General Revenue Fund and reimbursement shall be made to the General Revenue Fund. Debt service on the bonds or other debt obligations is expected to be paid from a pledge of net revenues derived from the operation of the System.

Section 2. The maximum principal amount of bonds or other debt obligations expected to be issued to finance the activities hereinabove described is not to exceed \$24,000,000.

Section 3. This resolution shall be placed in the minutes of the Board and shall be made available for inspection by the general public at the office of the Board.

Section 4. This resolution constitutes a declaration of official intent under Treas. Reg. §1.150-2.

Section 5. All resolutions or parts of resolutions in conflict herewith are hereby repealed, and this resolution shall be in immediate effect from and after its adoption.

ADOPTED AND APPROVED this 25th day of May, 2005.


Director

ATTEST:


Secretary

CONTINUING DISCLOSURE CERTIFICATE

This Disclosure Certificate (this "Disclosure Certificate") is executed and delivered this 27th day of July, 2005 by the City of Bristol, Tennessee (the "Issuer") in connection with the issuance of \$23,910,000 in aggregate principal amount of its Electric System Revenue Bonds, Series 2005 (the "Series 2005 Bonds"). The Issuer hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Beneficial Owners (as herein defined) of the Series 2005 Bonds and in order to assist the Participating Underwriter (as herein defined) in complying with the Rule (as herein defined). The obligations of the Issuer hereunder shall be assumed and exercised by Bristol Tennessee Essential Services ("BTES") and BTES has evidenced its assumption of such obligations by executing this certificate.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution (as herein defined), which apply to any capitalized terms used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to the Rule and this Disclosure Certificate.

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2005 Bonds (including persons holding Series 2005 Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Series 2005 Bonds for federal income tax purposes.

"Fiscal Year" shall mean any period of twelve consecutive months adopted by BTES as the fiscal year for its electric system (the "System") for financial reporting purposes, and shall initially mean the period beginning on July 1 of each calendar year and ending June 30 of the following calendar year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto. Currently, the MSRB's address is:

MSRB
1150 18th Street, N.W.
Suite 400
Washington, DC 20036
Attn: Disclosure

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Interactive Data
Attention: Repository
100 Williams Street
New York, New York 10038
Telephone: (212) 771-6899
Facsimile: (212) 771-7390
Internet: NRMSIR@interactivedata.com

Bloomberg Municipal Repositories
Post Office Box 840
Princeton, New Jersey 08542-0840
Telephone: (609) 279-3200
Facsimile: (609) 279-5962
Internet: MUNIS@bloomberg.com

Standard & Poor's J.J. Kenny Repository
55 Water Street
45th Floor
New York, New York 10041
Attention: Kenny Repository Service
Telephone: (212) 438-4595
Facsimile: (212) 438-3975

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
Internet: nrmsir@dpcdata.com

"Official Statement" shall mean the Official Statement of the Issuer relating to the Series 2005 Bonds.

"Participating Underwriter" shall mean Wiley Bros.-Aintree Capital, LLC, Nashville, Tennessee.

"Repository" shall mean each National Repository and each State Repository.

"Resolution" shall mean the Resolution of the Issuer pursuant to which the Series 2005 Bonds were issued, adopted June 7, 2005.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Tennessee.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) Not later than ten (10) months after the end of the Fiscal Year, commencing with Fiscal Year ending June 30, 2005, the Issuer shall provide an Annual Report to each Repository and to Ambac Assurance Corporation. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. Notwithstanding the foregoing, the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report when such audited financial statements are available. In the event that the audited financial statements are not included with the Annual Report and will be submitted at a later date, the Issuer shall include unaudited financial

statements of the Issuer in the Annual Report and shall indicate in the Annual Report the date on which the audited financial statements of the Issuer will be submitted. The audited financial statements of the System, when available, will be provided to each Repository and to Ambac Assurance Corporation.

(b) The Issuer shall also:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any and the MSRB; and

(ii) if the Annual Report (or audited financial statements which were to be separately submitted) is not filed in accordance with subsection (a), send a notice to each National Repository or the MSRB and each State Repository in substantially the form attached as Exhibit A.

SECTION 4. Content of Annual Reports. The System's Annual Report shall contain or incorporate by reference the following:

(a) If audited financial statements for the System are not yet available, the unaudited financial statements for the System, and when audited financial statements are available, the audited financial statements for the System, both such types of financial statements to be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Such financial statements shall be accompanied by an audit report resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants in conformity with generally accepted auditing standards.

(b) If the accounting principles changed from the previous Fiscal Year, a description of the impact of the change as required by Section 8 of this Disclosure Certificate.

(c) A statement indicating that the Fiscal Year has not changed, or, if the Fiscal Year has changed, a statement indicating the new Fiscal Year.

(d) An update of the information in Appendix D of the Official Statement under the following headings: Electric Rates, Number of Customers, Summary of Operations, Debt Service Coverage, and Ten Largest Electric Customers.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Issuer is an "obligated person" (as defined by the Rule), which have been filed in accordance with the Rule and the other rules of the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

(i) Principal and interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Series 2005 Bonds.
- (vii) Modifications to rights of the security holders.
- (viii) Bond calls.
- (ix) Defeasances.
- (x) Release, substitution or sale of property securing repayment of the security.
- (xi) Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall, within five business days, determine if such event would constitute material information for Beneficial Owners of the Series 2005 Bonds.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material, the Issuer shall file a notice of such occurrence with each National Repository or the MSRB and each State Repository, and Ambac Assurance Corporation. Notice of Listed Events described in subsections (a)(viii) and (ix) shall be disseminated automatically, and need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Beneficial Owners of affected Series 2005 Bonds pursuant to the Resolution.

The content of any notice of the occurrence of a Listed Event shall be determined by the Issuer and shall be in substantially the form attached as Exhibit B.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the defeasance (within the meaning of the Rule), prior redemption or payment in full of all of the Series 2005 Bonds. The Issuer shall notify each Repository that the Issuer's obligations under this Disclosure Certificate have terminated. If the Issuer's obligations are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the Issuer, and the original Issuer shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. Any filing under this Disclosure Certificate with a Repository may be made solely by transmitting such filing to the Texas Municipal Advisory Board (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 8. Amendment. This Disclosure Certificate may not be amended unless independent counsel experienced in securities law matters has rendered an opinion to the Issuer to the effect that the amendment does not violate the provisions of the Rule.

In the event that this Disclosure Certificate is amended or any provision of the Disclosure Certificate is waived, the notice of a Listed Event pursuant to Section 5(a)(vii) hereof shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided in the Annual Report. If an amendment or waiver is made in this Disclosure Certificate which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and impact of the change in the accounting principles on the presentation of the financial information. A notice of the change in the accounting principles shall be deemed to be material and shall be sent to each National Repository or the MSRB and each State Repository.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of any party to comply with this Disclosure Certificate shall be an action to compel performance. The cost to the Issuer of performing its obligations under the provisions of this Disclosure Certificate shall be paid solely from funds lawfully available for such purpose.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The Dissemination Agent may consult with counsel (who may, but need not, be counsel for any party hereto or the Issuer), and the opinion of such Counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such Counsel. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2005 Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Participating Underwriter, and Beneficial Owners from time to time of the Series 2005 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Intermediaries; Expenses. The Dissemination Agent is hereby authorized to employ intermediaries to carry out its obligations hereunder. The Dissemination Agent shall be

reimbursed immediately for all such expenses and any other reasonable expense incurred hereunder (including, but not limited to, attorney's fees).

SECTION 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State.

SECTION 16. Severability. In case any one or more of the provisions of this Disclosure Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Certificate, but this Disclosure Certificate shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

(signature page follows)

CITY OF BRISTOL, TENNESSEE

By: James E. Messmer
Mayor

BRISTOL TENNESSEE ESSENTIAL SERVICES

By: Art Williams
Member of the Board of Directors

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Bristol, Tennessee

Name of Bond Issue: Electric System Revenue Bonds, Series 2005

CUSIP Number¹: _____

Date of Issuance: July 27, 2005

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report due with respect to the above-named Series 2005 Bonds as required by its Disclosure Certificate, dated July 27, 2005. The Issuer anticipates that the Annual Report will be filed by _____.

This notice is based on the best information available at the time of dissemination. Any questions regarding this notice should be directed to _____.

Dated: _____

CITY OF BRISTOL, TENNESSEE

By: _____

¹ No representation is made as to the correctness of the CUSIP number either as printed on the bonds or as contained herein, and reliance may only be placed on other bond identification contained herein.

EXHIBIT B
NOTICE TO REPOSITORIES
OF THE OCCURRENCE OF [INSERT THE LISTED EVENT]

Relating to

CITY OF BRISTOL, TENNESSEE
ELECTRIC SYSTEM REVENUE BONDS,
SERIES 2005
CUSIP NUMBERS¹:

Notice is hereby given that [insert the Listed Event] has occurred. [Describe circumstances leading up to the event, action being taken and anticipated impact.]

This notice is based on the best information available at the time of dissemination and is not guaranteed as to accuracy or completeness. Any questions regarding this notice should be directed to [insert instructions for presenting securities, if applicable].

[Notice of the Listed Events described in Section 5(a)(ix) shall include the following:

The Issuer hereby expressly reserves the right to redeem such refunded or defeased bonds prior to their stated maturity date in accordance with the optional/extraordinary redemption provisions of said defeased bonds.

OR

The Issuer hereby covenants not to exercise any optional or extraordinary redemption provisions under the Resolution; however, the sinking fund provision will survive the defeasance.

AND

The Series 2005 Bonds have been defeased to [maturity/the first call date, which is _____]. This notice does not constitute a notice of redemption and no bonds should be delivered to the Issuer or the Paying Agent as a result of this mailing. A Notice of Redemption instructing you where to submit your bonds for payment will be mailed _____ to _____ days prior to the redemption date.]

Dated: _____

CITY OF BRISTOL, TENNESSEE

By: _____

Mayor

¹No representation is made as to the correctness of the CUSIP number either as printed on the bonds or as contained herein, and reliance may only be placed on other bond identification contained herein.

Information Return for Tax-Exempt Governmental Obligations

OMB No. 1545-0720

→ Under Internal Revenue Code section 149(e)

→ See separate instructions.

(Note: Use Form 8038-GC if the issue price is under \$100,000.)

| | | | |
|---|--|---|-------------------------|
| Part I Reporting Authority | | If Amended Return, check here → <input type="checkbox"/> | |
| 1 Issuer's name City of Bristol, Tennessee | | 2 Issuer's employer identification number 62-6000249 | |
| Number and street (or P.O. box if mail is not delivered to street address) Anderson Street | | Room/suite | 4 Report number 3 02 |
| 5 City, town, or post office, state and ZIP code Bristol, Tennessee 37620 | | 6 Date of issue 7-27-05 | |
| 7 Name of issue Electric System Revenue Bonds, Series 2005 | | 8 CUSIP number 110223 BP 8 | |
| 9 Name and title of officer or legal representative whom the IRS may call for more information Dr. R. Michael Browder, P.E., General Manager, Bristol Tennessee Essential Services | | 10 Telephone number of officer or legal representative (423) 968-1526 | |

| | | |
|--|----|--------------|
| Part II Type of Issue (check applicable box(es) and enter the issue price) | | |
| 11 <input type="checkbox"/> Education | 11 | |
| 12 <input type="checkbox"/> Health and hospital | 12 | |
| 13 <input type="checkbox"/> Transportation | 13 | |
| 14 <input type="checkbox"/> Public Safety | 14 | |
| 15 <input type="checkbox"/> Environment (including sewage bonds) | 15 | |
| 16 <input type="checkbox"/> Housing | 16 | |
| 17 <input checked="" type="checkbox"/> Utilities | 17 | \$24,361,855 |
| 18 <input type="checkbox"/> Other. Describe → | 18 | |
| 19 If obligations are TANs or RANs, check box → <input type="checkbox"/> If obligations are BANs, check box → <input type="checkbox"/> | | |
| 20 If obligations are in the form of a lease or installment sale, check box → <input type="checkbox"/> | | |

| | | | | | |
|--|-------------------------|-----------------|---|-------------------------------|-----------|
| Part III Description of Obligations | | | | | |
| | (a) Final Maturity date | (b) Issue price | (c) Stated redemption price at maturity | (d) Weighted average maturity | (e) Yield |
| 21 | 9-1-2035 | \$24,361,855 | \$23,910,000 | 19.108 years | 4.330831% |

| | | | | | | |
|---|--|--|--|--|----|------------|
| Part IV Uses of Proceeds of Bond Issue (including underwriters' discount) | | | | | | |
| Proceeds used for accrued interest | | | | | 22 | -0- |
| 23 Issue price of entire issue (enter amount from line 21, column (b)) | | | | | 23 | 24,361,855 |
| 24 Proceeds used for bond issuance costs (including underwriters' discount) | | | | | 24 | 176,159 |
| 25 Proceeds used for credit enhancement | | | | | 25 | 182,929 |
| 26 Proceeds allocated to reasonably required reserve or replacement fund | | | | | 26 | -0- |
| 27 Proceeds used to currently refund prior issues | | | | | 27 | -0- |
| 28 Proceeds used to advance refund prior issues | | | | | 28 | -0- |
| 29 Total (add lines 24 through 28) | | | | | 29 | 359,088 |
| 30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here) | | | | | 30 | 24,002,767 |

| | | |
|--|---|-----------|
| Part V Description of Refunded Bonds (Complete this part only for refunding bonds.) | | |
| 31 Enter the remaining weighted average maturity of the bonds to be currently refunded | → | N/A years |
| 32 Enter the remaining weighted average maturity of the bonds to be advance refunded | → | N/A years |
| 33 Enter the last date on which the refunded bonds will be called | → | N/A |
| 34 Enter the date(s) the refunded bonds were issued | → | N/A |

| | | |
|---|-----|--------------------------|
| Part VI Miscellaneous | | |
| 35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5) | 35 | -0- |
| 36 a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions) | 36a | -0- |
| b Enter the final maturity date of the guaranteed investment contract | | |
| 37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units | 37a | -0- |
| b If this issue is a loan made from the proceeds of another tax-exempt issue, check box → <input type="checkbox"/> and enter the name of the issuer → | | |
| 38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box | → | <input type="checkbox"/> |
| 39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box | → | <input type="checkbox"/> |
| 40 If the issuer has identified a hedge, check box | → | <input type="checkbox"/> |

Under penalties of perjury, I declare that I have examined the return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Please

Sign

Here

Signature of issuer's authorized representative

7-27-05

Date

James E. Messimer, Mayor

Type or print name and title

Issuer's No. _____
(To be completed by State)

REPORT ON DEBT OBLIGATION
(Pursuant to Tennessee Code Annotated 9-21-151)

| 1. Issuer: Name <u>City of Bristol, Tennessee</u> Address <u>801 Anderson Street</u> <u>Bristol, Tennessee 37620</u> <u>Electric System Revenue Bonds, Series 2005</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|--|-------|---------------------------------------|-------|--|-------|---|-------|--|-------|---|-------|--|-------|---|-------|--------------------------------------|-------|--------------|-------|-----------------------------------|-------|------------------------------------|-------|---|------|----------------------------------|-------|--|-------|---|-------|---------|-------|---|
| 2. Debt obligation: <input checked="" type="checkbox"/> a. Bond <input type="checkbox"/> b. CON <input type="checkbox"/> c. BAN <input type="checkbox"/> d. GAN <input type="checkbox"/> e. Lease/Lease Purchase <input type="checkbox"/> f. Loan Agreement | 5. Face Amount of Debt Obligation <u>\$23,910,000</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. Security for Debt Obligation: <input type="checkbox"/> a. General Obligation <input type="checkbox"/> b. General Obligation Revenue and Tax <input checked="" type="checkbox"/> c. Revenue <input type="checkbox"/> d. Annual Appropriations | 6. Type of sale: <input type="checkbox"/> a. Competitive Public Sale <input checked="" type="checkbox"/> b. Negotiated <input type="checkbox"/> c. Loan Program _____ <div align="right">(specify)</div> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Purpose of Issue: <table style="width:100%; border: none;"> <thead> <tr> <th style="text-align: left; border: none;">Percent of Issue:</th> <th style="border: none;"></th> </tr> </thead> <tbody> <tr><td style="border: none;"><input type="checkbox"/> a. General Government</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> b. Education</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> c. Highways and Streets</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> d. Public Safety</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> e. Solid Waste Disposal</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> f. Industrial Park</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> g. Manufacturing Facilities</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> h. Health Facilities</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> i. Airports</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;">j. Utilities</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"> <input type="checkbox"/> i. Water</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"> <input type="checkbox"/> ii. Sewer</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"> <input checked="" type="checkbox"/> iii. Electric</td><td style="border: none; text-align: center;">100%</td></tr> <tr><td style="border: none;"> <input type="checkbox"/> iv. Gas</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> k. Refunding or Renewal</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"><input type="checkbox"/> l. Other _____</td><td style="border: none; text-align: center;">_____</td></tr> <tr><td style="border: none;"> specify</td><td style="border: none; text-align: center;">_____</td></tr> </tbody> </table> | Percent of Issue: | | <input type="checkbox"/> a. General Government | _____ | <input type="checkbox"/> b. Education | _____ | <input type="checkbox"/> c. Highways and Streets | _____ | <input type="checkbox"/> d. Public Safety | _____ | <input type="checkbox"/> e. Solid Waste Disposal | _____ | <input type="checkbox"/> f. Industrial Park | _____ | <input type="checkbox"/> g. Manufacturing Facilities | _____ | <input type="checkbox"/> h. Health Facilities | _____ | <input type="checkbox"/> i. Airports | _____ | j. Utilities | _____ | <input type="checkbox"/> i. Water | _____ | <input type="checkbox"/> ii. Sewer | _____ | <input checked="" type="checkbox"/> iii. Electric | 100% | <input type="checkbox"/> iv. Gas | _____ | <input type="checkbox"/> k. Refunding or Renewal | _____ | <input type="checkbox"/> l. Other _____ | _____ | specify | _____ | 7. Tax Status: a. <u>X</u> Tax Exempt b. _____ Taxable |
| Percent of Issue: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> a. General Government | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> b. Education | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> c. Highways and Streets | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> d. Public Safety | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> e. Solid Waste Disposal | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> f. Industrial Park | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> g. Manufacturing Facilities | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> h. Health Facilities | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> i. Airports | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| j. Utilities | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> i. Water | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> ii. Sewer | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input checked="" type="checkbox"/> iii. Electric | 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> iv. Gas | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> k. Refunding or Renewal | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <input type="checkbox"/> l. Other _____ | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| specify | _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. Dated Date: <u>7-27-05</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9. Issue Date (Closing Date): <u>7-27-05</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10. Rating: a. <u>Moody's A2 (Underlying)</u> <u>Aaa (Ambac Insured)</u> b. Standard & Poor's _____ c. Unrated _____ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11. Interest Cost: <input checked="" type="checkbox"/> a. TIC (True Interest Cost) <u>4.426381%</u> <input type="checkbox"/> b. NIC (Net Interest Cost) <input type="checkbox"/> c. Variable Rate <input type="checkbox"/> d. Other | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12. Recurring Costs: a. Remarketing Agent Fees \$ <u>-0-</u> b. Liquidity Fees \$ <u>-0-</u> c. Credit Enhancement Fees \$ <u>-0-</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

SEE REVERSE SIDE

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JUL 27 2005

LOCAL FINANCE

| 13. Maturity Dates, Amounts and Interest Rates | | |
|--|------------------|---------------|
| Year | Principal Amount | Interest Rate |
| 9-1-2007 | \$440,000 | 3.500% |
| 9-1-2008 | 455,000 | 3.500 |
| 9-1-2009 | 470,000 | 3.500 |
| 9-1-2010 | 485,000 | 3.500 |
| 9-1-2011 | 505,000 | 3.500 |
| 9-1-2012 | 520,000 | 3.250 |
| 9-1-2013 | 540,000 | 3.250 |
| 9-1-2014 | 555,000 | 3.375 |
| 9-1-2015 | 575,000 | 3.500 |

If additional space is needed, attach additional sheet

| Year | Principal Amount | Interest Rate |
|-----------|------------------|---------------|
| 9-1-2016 | \$600,000 | 3.625% |
| 9-1-2018* | 1,280,000 | 5.000 |
| 9-1-2020* | 1,415,000 | 5.000 |
| 9-1-2022* | 1,560,000 | 4.750 |
| 9-1-2024* | 1,715,000 | 4.750 |
| 9-1-2027* | 2,880,000 | 4.250 |
| 9-1-2029* | 2,150,000 | 5.000 |
| 9-1-2033* | 4,935,000 | 4.375 |
| 9-1-2035* | 2,830,000 | 5.000 |

*Term Bonds

No. of Years _____
(To be completed by State)

14. Itemized Description of the Cost of Issuance (ROUND TO THE NEAREST DOLLAR)

| | |
|--|---------------|
| a. Financial Advisor Fees | \$ _____ |
| b. Legal Fees | |
| i. Bond Counsel | \$ 40,000.00 |
| ii. Issuer's Counsel | \$ _____ |
| iii. Trustee's Counsel | \$ _____ |
| | \$ _____ |
| | \$ _____ |
| c. Paying Agent Fees and Registration Fees | \$ 750.00 |
| d. Trustee Fees | \$ _____ |
| e. Remarketing Agent Fees | \$ _____ |
| f. Liquidity Fees | \$ _____ |
| g. Rating Agency Fees | \$ 15,250.00 |
| h. Credit Enhancement Fees | \$ 182,929.00 |
| i. Underwriter's Discount (%) 0.49 | \$ 117,159.00 |
| i. Take Down | \$ _____ |
| ii. Management Fee | \$ _____ |
| iii. Risk Premium | \$ _____ |
| iv. Underwriter's Counsel | \$ _____ |
| v. Other Expenses | \$ _____ |
| j. Printing and Advertising Fees | \$ 1,000.00 |
| k. Issuer Fees | \$ _____ |
| l. Real Estate Fees | \$ _____ |
| m. Other Costs | \$ 2,000.00 |
| n. Total Costs | \$ 359,088.00 |

| Name of Firm |
|-------------------------------------|
| Bass, Berry & Sims PLC |
| |
| |
| |
| |
| |
| |
| Wachovia Bank, National Association |
| |
| |
| |
| Moody's |
| Ambac Assurance Corporation |
| Wiley Bros. - Aintree Capital, Inc. |
| |
| |
| |
| |
| |
| |
| |
| |
| CUSIP, MSRB, etc. |
| |

Note: Please enclose a copy of the DISCLOSURE STATEMENT or OFFICIAL STATEMENT if one was developed.

15. James E. Messimer
 Authorized Representative (Signature)
James E. Messimer
 Authorized Representative (Please Type or Print Legibly)
Mayor
 Title
7-27-05
 Date

Jeffrey A. Oldham
 Preparer (Please Type or Print Legibly)
Member
 Title
Bass, Berry & Sims PLC
 Firm
7-27-05
 Date

SEND TO: Comptroller of the Treasury, Division of Local Finance, Suite 1700, 505 Deaderick Street,
 James K. Polk State Office Building, Nashville, Tennessee 37243-0274

CERTIFICATE AND AGREEMENT OF CITY REGARDING FINANCIAL GUARANTY
INSURANCE POLICY

WHEREAS, the City of Bristol, Tennessee (the "City") has agreed to issue its \$23,910,000 Electric System Revenue Bonds, Series 2005 (the "Bonds");

WHEREAS, Ambac Assurance Corporation (the "Insurer") has committed to provide its financial guaranty insurance policy with respect to the Bonds, and, in consideration thereof, requires that the City agree to certain terms and conditions regarding the Insurer and its rights with respect to the Bonds;

NOW THEREFORE, the undersigned, being the duly qualified and acting Mayor of the City, pursuant to the authority granted to him by the resolution adopted by the City Council of the City on June 7, 2005, authorizing the Bonds (the "Bond Resolution"), does hereby agree, on behalf of the City, in consideration of the Insurer's commitment to provide a financial guaranty insurance policy with respect to the Bonds, that the City shall be bound by the provisions set forth on Exhibit A attached hereto, as if such provisions were set forth in the Bond Resolution.

IN WITNESS WHEREOF, I have hereunto set my hand on this 27th day of July, 2005.

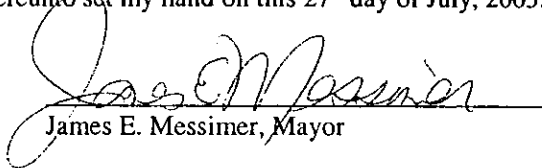

James E. Messimer, Mayor

EXHIBIT A

Provisions Relating to Ambac Financial Guaranty Insurance Policy

Capitalized terms not otherwise defined herein shall have the meanings ascribed in the resolution adopted by the City Council of the City on June 7, 2005 (the "Resolution"), authorizing the issuance of the City's \$23,910,000 Electric System Revenue Bonds, Series 2005 (the "Bonds").

DEFINITIONS

"Ambac Assurance" shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Financial Guaranty Insurance Policy" shall mean the financial guaranty insurance policy issued by Ambac Assurance insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"BTES" shall mean Bristol Tennessee Essential Services.

AMBAC CONSENT

A. Consent of Ambac Assurance.

Any provision of the Resolution expressly recognizing or granting rights in or to Ambac Assurance may not be amended in any manner which affects the rights of Ambac Assurance hereunder without the prior written consent of Ambac Assurance.

B. Consent of Ambac Assurance in Addition to Holder Consent.

Unless otherwise provided in this Section, Ambac Assurance's consent shall be required in addition to Holder consent, when required, for the following purposes: (i) execution and delivery of any supplemental resolution or any amendment, supplement or change to or modification of the Resolution (ii) removal of the Registration Agent and selection and appointment of any successor paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Holder consent.

C. Consent of Ambac Assurance in the Event of Insolvency.

Any reorganization or liquidation plan with respect to BTES must be acceptable to Ambac Assurance. In the event of any reorganization or liquidation, Ambac Assurance shall have the right to vote on behalf of all Holders who hold Ambac Assurance-insured Bonds absent a default by Ambac Assurance under the applicable Financial Guaranty Insurance Policy insuring such Bonds.

D. Consent of Ambac Assurance Upon Default.

Anything in the Resolution to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined therein, Ambac Assurance shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders for the benefit of the Holders under the Resolution.

NOTICES/INFORMATION TO BE GIVEN TO AMBAC

Notices to be sent to the attention of the SURVEILLANCE DEPARTMENT:

A. While the Financial Guaranty Insurance Policy is in effect, BTES shall furnish to Ambac Assurance (to the attention of the Surveillance Department, unless otherwise indicated):

(a) as soon as practicable after the filing thereof, a copy of any financial statement of BTES' electric system (the "System") and a copy of any audit and annual report of the System;

(b) such additional information it may reasonably request.

B. a copy of any notice to be given to the registered owners of the Bonds, including, without limitation, notice of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to the Resolution relating to the security for the Bonds.

C. To the extent that the City has entered into a continuing disclosure agreement with respect to the Bonds, Ambac Assurance shall be included as party to be notified.

Notices to be sent to the attention of the GENERAL COUNSEL OFFICE:

A. BTES shall notify Ambac Assurance of any failure of BTES or the City to provide relevant notices, certificates, etc.

B. Notwithstanding any other provision of the Resolution, BTES shall immediately notify Ambac Assurance if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any event of default hereunder.

Other Information to be given to Ambac Assurance:

The City and BTES will permit Ambac Assurance to discuss the affairs, finances and accounts of BTES or any information Ambac Assurance may reasonably request regarding the security for the Bonds with appropriate officers of the City or BTES. The City and BTES will permit Ambac Assurance to have access to the System and have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

Ambac Assurance shall have the right to direct an accounting at BTES' expense, and BTES' failure to comply with such direction within thirty (30) days after receipt of written notice of the direction from Ambac Assurance shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Bonds.

DEFEASANCE LANGUAGE

A. Bonds shall be deemed to be outstanding under the Resolution if such Bonds fall into the category described below.

B. Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by Ambac Assurance Corporation pursuant to the Financial Guaranty Insurance Policy, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge of the Net Revenues and all covenants, agreements and other Bonds of the City and BTES to the registered owners shall continue to exist and shall run to the benefit of Ambac Assurance, and Ambac Assurance shall be subrogated to the rights of such registered owners.

PAYMENT PROCEDURE PURSUANT TO THE FINANCIAL GUARANTY INSURANCE POLICY

As long as the Bond insurance shall be in full force and effect, the City, BTES and the Registration Agent agree to comply with the following provisions:

(a) At least one (1) day prior to all Interest Payment Dates the Registration Agent, if any, will determine whether there will be sufficient funds in the Funds and Accounts to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Registration Agent, if any, determines that there will be insufficient funds in such Funds or Accounts, the Registration Agent, if any, shall so notify Ambac Assurance. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Registration Agent, if any, has not so notified Ambac Assurance at least one (1) day prior to an Interest Payment Date, Ambac Assurance will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which Ambac Assurance shall have received notice of nonpayment from the Registration Agent, if any.

(b) the Registration Agent, if any, shall, after giving notice to Ambac Assurance as provided in (a) above, make available to Ambac Assurance and, at Ambac Assurance's direction, to The Bank of New York, in New York, New York, as insurance trustee for Ambac Assurance or any successor insurance trustee (the "Insurance Trustee"), the registration books of the City maintained by the Registration Agent, if any, and all records relating to the Funds and Accounts maintained under the Resolution.

(c) the Registration Agent, if any, shall provide Ambac Assurance and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from Ambac Assurance under the terms of the Financial Guaranty Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from Ambac Assurance and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of Bonds entitled to receive full or partial principal payments from Ambac Assurance.

(d) the Registration Agent, if any, shall, at the time it provides notice to Ambac Assurance pursuant to (a) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from Ambac Assurance (i) as to the fact of such entitlement, (ii) that Ambac Assurance will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Ambac Assurance, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of Ambac Assurance) for payment to the Insurance Trustee, and not the Registration Agent, if any, and (iv) that should they be entitled to receive partial payment of principal from Ambac Assurance, they must surrender their Bonds for payment thereon first to the Registration Agent, if any, who shall note on such Bonds the portion of the principal paid by the Registration Agent, if any, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) in the event that the Registration Agent, if any, has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its

registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Registration Agent, if any, shall, at the time Ambac Assurance is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available, and the Registration Agent, if any, shall furnish to Ambac Assurance its records evidencing the payments of principal of and interest on the Bonds which have been made by the Registration Agent, if any, and subsequently recovered from registered owners and the dates on which such payments were made.

(f) in addition to those rights granted Ambac Assurance under the Resolution, Ambac Assurance shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Financial Guaranty Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Registration Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the City maintained by the Registration Agent, if any, upon receipt from Ambac Assurance of proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Registration Agent, if any, shall note Ambac Assurance's rights as subrogee on the registration books of the City maintained by the Registration Agent, if any, upon surrender of the Bonds by the registered owners thereof together with proof of the payment of principal thereof.

INTERESTED PARTIES

A. Ambac As Third Party Beneficiary.

To the extent that the Resolution confers upon or gives or grants to Ambac any right, remedy or claim under or by reason of the Resolution, Ambac is hereby explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

MASSENGILL, CALDWELL & HYDER, P.C.
Attorneys at Law

777 ANDERSON STREET
POST OFFICE BOX 1745
BRISTOL, TENNESSEE 37621

MYERS N. MASSENGILL
CRAIG H. CALDWELL, JR.
JACK W. HYDER, JR.
MYERS N. MASSENGILL, II

TELEPHONE 423.764.1174
FACSIMILE 423.764.1179

CRAIG H. CALDWELL
FRANK WINSTON
OF COUNSEL

July 27, 2005

Wiley Bros. – Aintree Capital, LLC
201 4th Avenue North
Nashville, Tennessee 37244

Bass, Berry & Sims PLC
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238

Ambac Assurance Corporation
New York, New York

Re: The City of Bristol, Tennessee (the "Municipality") – \$23,910,000 Electric System Revenue Bonds, Series 2005 (the "Bonds")

Ladies and Gentlemen:

This firm has acted as counsel to the Municipality in connection with the issuance, execution, delivery and sale of the Bonds, authorized and issued by the Municipality pursuant to a resolution of the City Council of the Municipality, adopted on June 7, 2005 (the "Resolution") and the sale of the Bonds by the Municipality to Wiley Bros. – Aintree Capital, LLC, Nashville, Tennessee (the "Underwriter") pursuant to a Bond Purchase Agreement, dated July 15, 2005 by and between the Municipality and the Underwriter (the "Bond Purchase Agreement"). We have been requested by the Municipality to render this opinion pursuant to Section 5(b)(iii) of the Bond Purchase Agreement. All capitalized terms used but not defined herein shall have the meanings assigned to them in the Bond Purchase Agreement.

In connection with this opinion, we have reviewed the following:

1. The Resolution, and all public notices relating thereto;
2. Such minutes and records of the Municipality as we have deemed necessary to render the opinion set forth herein;
3. The Bond Purchase Agreement;
4. The Preliminary Official Statement, dated July 13, 2005 and the Official Statement, dated July 15, 2005, published and distributed in connection with the sale of the Bonds (the "Official Statement"); and

5. Such other documents and matters of fact and law as we have deemed necessary in order to render the opinion set forth herein.

As to various issues of fact, we have relied upon the representations and warranties of the Municipality contained in the Bond Purchase Agreement and upon statements and certificates of officers of the Municipality without independent verification or investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Municipality is duly incorporated pursuant to the laws of the State of Tennessee, and, under applicable law, has all requisite power and authority and all necessary licenses and permits to own and operate its properties, to carry on its activities as now conducted and as presently proposed to be conducted and enter into and perform its obligations under the Resolution and the Bond Purchase Agreement. Except as set forth in the Bond Purchase Agreement, the Resolution hereinabove described has not been amended, modified or supplemented.

2. The Resolution has been duly and lawfully adopted by the City Council of the Municipality at a meeting duly and regularly noticed, called and held with a quorum present and acting throughout, in compliance with Section 8-44-101 et seq., Tennessee Code Annotated, as amended, and has not been amended, modified or supplemented, except as set forth in the Bond Purchase Agreement, and is in full force and effect.

3. To the best of our knowledge, there is no litigation or other legal or governmental action, proceeding, inquiry or investigation of any nature pending on the Closing Date, or threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, application of the proceeds thereof, or the payment, collection or application of income or revenues of the Municipality's electric system (the "System") or the pledge thereof to the payment of the Bonds pursuant to the Resolution; seeking to restrain or enjoin the execution, delivery or performance of the Bond Purchase Agreement; in any manner questioning the proceedings or authority pursuant to which the Bonds are authorized or issued; in any manner questioning or relating to the validity of the Bonds, the Resolution or the Bond Purchase Agreement; contesting in any way the completeness or accuracy of the Official Statement; in any way contesting the corporate existence or boundaries of the Municipality or the title of its present officers to their respective offices; or contesting the powers of the Municipality or its authority with respect to the Bonds, the Resolution, the Bond Purchase Agreement or the Official Statement, or any act to be done or documents or certificates to be executed or delivered in connection with any of them.

4. To the best of our knowledge, the execution and delivery of the Bond Purchase Agreement and the Bonds, the adoption of the Resolution, and the compliance by the Municipality with the terms and provisions thereof, will not conflict with, or result in any violation of any provision of the Resolution or similar incorporating or governing documents of the Municipality or of any amendments to any of the foregoing or any indenture, mortgage, deed of trust or other agreement or instrument to which the Municipality is a party or by which it or its properties are

July 27, 2005

Page 3

bound and will not violate any decree, order, injunction, judgment, determination or award to which the Municipality or its properties are subject.

5. To the best of our knowledge, the Municipality is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject and which are material to its properties, operations, finances; and the execution of the documents, taking of the actions, and consummating the transactions described herein will not cause the Municipality to fail to be in such compliance.

6. No special, local or private act or legislation has been passed by the General Assembly of the State of Tennessee applicable to the Municipality affecting its power to issue the Bonds or pay the principal of, premium, if any, interest on the Bonds when due.

We hereby certify that James E. Messimer and Robert L. Wilson, Jr. are the duly qualified and acting Mayor and City Recorder, respectively, of the Municipality, and that each of the foregoing has full power to act as such officers on behalf of the Municipality in connection with the execution and delivery of the Bonds.

We express no opinion herein other than as to the law of the State of Tennessee. This opinion is rendered solely for your information in connection with the above-referenced transaction and may not be delivered or quoted to any other person or relied upon for any other purpose without our prior written consent.

Yours very truly,

Martensell, Caldwell & Hyatt, P.C.

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

KNOXVILLE OFFICE
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TN 37902
(865) 521-6200

MEMPHIS OFFICE
THE TOWER AT PEABODY PLACE
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(615) 742-6200

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DOWNTOWN OFFICE:
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NASHVILLE, TN 37238-3001
(615) 742-6200

MUSIC ROW OFFICE:
29 MUSIC SQUARE EAST
NASHVILLE, TN 37203-4322
(615) 255-6161

July 27, 2005

City Council
City of Bristol, Tennessee

Wiley Bros.-Aintree Capital, LLC
Nashville, Tennessee

Ambac Assurance Corporation
New York, New York

Re: The City of Bristol, Tennessee Electric System Revenue Bonds, Series 2005

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the City of Bristol, Tennessee (the "Issuer") of \$23,910,000 Electric System Revenue Bonds, Series 2005, dated July 27, 2005 (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.

2. The resolution of the City Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The principal of, premium, if any, and interest on the Bonds are payable solely from and secured by a pledge of the income and revenues to be derived from the operation of the electric transmission and distribution system of the Issuer (the "System"), subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing, and insuring the System. We express no opinion as to the sufficiency of any of such revenues for the payment of principal of, premium, if any, or interest on the Bonds.

4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as

defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,

Gass, Berry + Sims PLLC

BASS, BERRY & SIMS PLC

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ATTORNEYS AT LAW

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MUSIC ROW OFFICE:
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NASHVILLE, TN 37203-4322
(615) 255-6161

July 27, 2005

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004

Re: City of Bristol, Tennessee \$23,910,000 Electric System Revenue Bonds, Series 2005
(together, the "Bonds")

Ladies and Gentlemen:

We have acted as bond counsel to the City of Bristol, Tennessee (the "Issuer") in connection with its issuance of the Bonds pursuant to a resolution adopted by the Issuer on June 7, 2005 (the "Bond Resolution"). The terms used herein, but not defined herein, have the respective meanings given to them in the Bond Resolution.

For purposes of this opinion, we have examined, among other things, a copy of the Bond Resolution, Surety Bond Policy No. SB2122BE issued by Ambac Assurance Corporation ("Ambac"), the Guaranty Agreement dated as of the date hereof, between the Issuer and Ambac (the "Guaranty Agreement"), the Constitution and laws of the State of Tennessee and such other laws, regulations, instruments, documents, and proceedings as we have deemed necessary and advisable in giving this opinion. In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity with the original documents of all documents submitted to us as copies, that Ambac has all requisite power and authority under applicable laws to execute, deliver and perform its obligations under the Guaranty Agreement, that the Guaranty Agreement has been duly authorized, executed and delivered by Ambac and that the Guaranty Agreement is enforceable against Ambac in accordance with its terms.

Based on such examination, we are of the opinion, as of the date hereof, that the Guaranty Agreement has been duly authorized, executed and delivered by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and to the exercise of judicial discretion in appropriate cases.

Yours truly,

Bass, Berry & Sims PLC

13) Please describe the nature of the bond(s) BTES has issued or is pursuing to fund its provision of cable television, Internet and/or telephone services, including whether such bond(s) are or will be secured by the taxing authority of Bristol, Tennessee.

RESPONSE: See Response to Question 12. No bonds issued or pursued by BTES are secured by the taxing authority of Bristol, Tennessee.

14) Under what circumstances might the issuance of any bonds BTES intends to issue to fund its cable television, Internet and/or telephone services require a public vote?

RESPONSE: Not applicable. See response to Question 13.

15) Please provide documentation of the consent received from the local governing bodies of Sullivan County, Tennessee, Washington County, Virginia, any other county, and/or any incorporated municipal entities within any county (other than Bristol, Tennessee) for BTES to provide cable television/Internet services or telephone services.

RESPONSE: Requests for a cable television/Internet franchise are pending in Sullivan County, TN and Bluff City, TN. No consent has yet been received. No other requests are contemplated at this time. BTES will request other franchises as needed.

16) What telephone services would BTES be authorized to provide by its instant *Application for a Certificate of Convenience and Necessity to Provide Competing Telecommunications Service* (Application), e.g. local exchange, exchange access, intrastate intraLATA toll, intrastate interLATA long distance?

RESPONSE: In this application, BTES seeks authority to offer any intrastate telecommunications services which BTES may lawfully provide and which the TRA may lawfully authorize BTES to provide.

17) Does the authorization contained at Tenn. Code Ann. §7-52-401 permit municipalities to offer telecommunications services that are resold services to the incumbent local exchange carrier or must the service offered be provided by BTES facilities only?

RESPONSE: The authorization contained in T.C.A. §7-52-401 permits BTES to offer any “telecommunications” services, including resold services and facilities-based services.

18) Please provide a copy of any filing(s) submitted by BTES to the Federal Communications Commission and any other issued as a result of such filing(s) or applications(s).

RESPONSE: An online Cable Community Registration filing has been made with the FCC. A copy is attached.



FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554

CABLE COMMUNITY REGISTRATION

FCC Form 322

1. Indicate the name, mailing address, and telephone number of the cable system operator.

| | | | |
|--|-----------------------|--|-------------------|
| Legal Name Bristol Tennessee Essential Services | | FCC Registration No. (FRN) 000-17-62939 | |
| Assumed/ doing business as (dba) name n/a | | | |
| Mailing Address Post Office Box 549 | City Bristol | State Tennessee | Zip Code 37621 |
| Telephone No. (423)968-1526 | Email (optional) @ | | |

2. Indicate whether the operator is an individual, private association, partnership, corporation, or government entity.

Individual ☐ Private Association ☐ Partnership ☐ Corporation ☐ Government Entity ☒

3. Indicate the name, telephone number, and e-mail address (if any) of the person responsible for questions regarding this form.

| | | |
|--------------------------------|---------------------------------|-----------------------------------|
| Name of Contact Wendi Davis | Telephone No. (423) 793-5518 | E-mail Address wdavis@btes.net |
|--------------------------------|---------------------------------|-----------------------------------|

4. Indicate the Physical System Identifier (PSID) if the community will be served by an existing system n/a

5. Provide a date (MM/YYYY) when this community began service. 11/2005

6. Indicate the community name, county, state, and type code of the community from the list provided in the instructions.

| | | | |
|------------------------------|--------------------|--------------------|----------------|
| Name of Community Bristol | County Sullivan | State Tennessee | Type Code 4 |
|------------------------------|--------------------|--------------------|----------------|

7. Indicate the local television broadcast signals (i.e. call signs) to be carried on this system.

| | | | | | | | | |
|----------|-----------|--------------|--|--|--|--|--|--|
| PBS WMSY | PBS WSNB | CBS WJHL | | | | | | |
| WB CYB | TV68 WLFG | BTES Channel | | | | | | |
| NBC WCYB | ABC WKPT | | | | | | | |
| UPN WAPK | FOX WEMT | | | | | | | |

8. Certification

By signing below, the operator also certifies that neither the operator nor any other "party" to the notification is subject to a denial of federal benefits that includes FCC benefits pursuant to Section 5301 of the Anti-Drug Abuse Act of 1988, 21 U.S.C. § 862. For the definition of a "party" for this purpose, see 47 C.F.R. § 1.2002(b).

| | |
|--|--------------------------|
| Type or Print Name Dr. R. Michael Browder | Title General Manager |
| Signature <i>R Michael Browder</i> | Date 12/8/05 |

WILLFUL FALSE STATEMENTS ON THIS FORM ARE PUNISHABLE BY FINE AND/OR IMPRISONMENT (18 U.S.C. § 1001) AND/OR REVOCATION OF ANY STATION LICENSE (47 U.S.C. § 312 (a) (1)), AND/OR FORFEITURE (47 U.S.C. § 503).

19) Please explain in detail BTES' Application Exhibit D, regarding a capital expenditures budget.

RESPONSE: Network Equipment accounts for \$600,000 of the budgeted capital expenditures, broken down into \$450,000 for Voice Switching & Ancillary Equipment and \$150,000 for Voice Transport Equipment.

Software and Operational Support Systems investments represent \$299,975 of the total capital expenditures budget line item reflected in Exhibit D of the application.

The final category of capital expenditures includes the capitalized portion of service activation and outside plant work required to install voice service for a new customer. This total budgeted expenditure is in the amount of \$376,050.

The total budgeted capital expenditures reflected in Exhibit D are therefore \$1,276,025, excluding the capitalized cost of seeking governmental approvals.

| Category | Year 1 | Year 2 | Year 3 | Total |
|-----------------------------|--------------------|------------------|------------------|--------------------|
| Network Equipment | \$600,000 | \$0 | \$0 | \$600,000 |
| Operational Support Systems | \$299,975 | \$0 | \$0 | \$299,975 |
| Capitalized Outside Plant | \$129,030 | \$123,510 | \$123,510 | \$376,050 |
| Total | \$1,029,005 | \$123,510 | \$123,510 | \$1,276,025 |

20) Please explain the system of accounts BTES proposes to use regarding its cable television, Internet, and telephone divisions.

RESPONSE: BTES uses the Uniform System of Accounts adopted by the Federal Energy Regulatory Commission. BTES will create appropriate accounts and subaccounts within its existing chart of accounts to capture costs related to its cable/internet division and its telephone division.

21) BTES' Application at Exhibit B includes a cost allocation manual or CAM. On page 9 of the CAM it is related that BTES will record depreciation by business unit at depreciation rates that will reflect "industry normal life spans." Explain in detail how BTES has determined "industry normal life spans" including any third-party measures (FCC, FERC, GASB) that have been consulted or employed in BTES' determination.

RESPONSE:

- a) BTES utilized its own experience on the useful life of similar products in service in similar environments.
- b) BTES took input from vendors and potential vendors on the useful life of products it wished to explore.
- c) BTES used information from a TVA Depreciation Reserve Study based on curves developed in a research project at Iowa State College.

22) Do the business plans BTES submitted to the Comptroller in Question 1 reflect BTES's application of "industry normal life spans" per its proposed CAM?

RESPONSE: As previously discussed in response to Question 1, the business plan submitted September 28, 2004, does not contain information about BTES's proposed telephone services. BTES has no copies of any other business plan submitted to the Comptroller.

23) Please explain fully the development of the “plant in service allocators” located in the CAM at Appendix C, page 5, including fiber infrastructure cost assignment to the electric division.

RESPONSE: Appendix C, page 5 details the calculation of two allocation factors – the Total Plant In Service allocation factor and the Total Fiber Infrastructure allocation factor. Because the total plant includes both plant dedicated to the exclusive use of a business unit as well as plant assigned to one business unit that is shared with other business units, it is necessary to divide portions of certain assigned plant among all business units in accordance with certain other allocation factors in order to derive these two allocation factors.

Line 1 of Appendix C, page C-5, shows the estimated cost of the plant in service assigned to each business unit and that will be used exclusively in the business unit’s operations. The amount for the Electric Business Unit is the current electric system plant in service. The amount for the Cable/Internet Business Unit is the cost associated with the headend and other costs specific to that business unit. The amount for the Telephone Business Unit is cost associated with the soft switch and other costs specific to that business unit. Line 1 does not include the existing or future fiber optic infrastructure.

The “Total” column of Line 3 of Appendix C, page C-5, shows the estimated cost of the new fiber infrastructure. These costs will be assigned to the Electric Business Unit and then allocated as described in Response 24, below. For purposes of calculating these allocators, however, the estimated costs are divided among the business units according to the Homes Passed allocation factor.

The “Total” column of Line 5 of Appendix C, page C-5, shows the cost of the existing fiber infrastructure. These costs have been assigned to the Electric Business Unit and will be allocated as described in Response 24, below. For purposes of calculating these allocators,

however, the existing costs are divided among the business units according to the Total Services allocation factor.

The Total Plant In Service allocation factor for each business unit is then calculated by (i) totaling each division's directly assigned plant, divided share of the new fiber infrastructure and divided share of the existing fiber optic infrastructure and then (ii) dividing that sum by the total of those three lines for all business units.

The Total Fiber Infrastructure allocator for each business unit is calculated by (i) totaling each division's divided share of the new fiber infrastructure and divided share of the existing fiber optic infrastructure and then (ii) dividing that sum by the total of those two lines for all business units.

24) How will BTES assign among its business units the cost of the fiber optic infrastructure (both fiber and associated electronics) that connects BTES' nineteen (19) substations, extended from the substations to BTES' customers curb, and runs from the curb to BTES' customer's premises?

RESPONSE: The cost of the fiber infrastructure is assigned to the Electric Business Unit.

The existing fiber infrastructure connects the 19 substations to the central office of BTES and provides support for the operations of the electric system. These costs have been assigned to the Electric Business Unit and are currently on the books of the Electric Business Unit. Once all approvals are obtained, this plant will support the operations of all business units and will become joint plant. Therefore, the costs of operating and maintaining this plant will be shared by each business unit through the allocation of costs.

The new infrastructure will run from the existing fiber infrastructure to the customers' premises. The costs of the new fiber infrastructure will be assigned to the Electric Business Unit and will appear on the books of the Electric Business Unit because it will serve the operations of that business unit. However, once all approvals are obtained, this plant will become joint plant and will support the operations of all business units. Therefore, the costs of operating and maintaining this plant will be shared by each business unit through the allocation of costs.

25) Regarding Exhibit D to BTES' Application, explain in detail the cost allocation assumptions reflected in the three year pro-forma financial statements.

RESPONSE: Certain assumptions form the basis of the financial projections that comprise Exhibit D of the application. These assumptions include market potential, projected penetration rates, and other variables that drive financial performance. Specifically, the following assumptions were used in development of the pro-forma financial statements in Exhibit D.

Consumer Service Offerings:

Homes Passed – Year 1: 5,000
Homes Passed – Year 2: 10,000
Homes Passed – Year 3: 15,000

Projected Penetration – Year 1: 1,750
Projected Penetration – Year 2: 3,500
Projected Penetration – Year 3: 5,250

Projected Penetration Rate: 35%
Average Lines Per Home: 1

Projected Local Revenue Per Line: \$19.95⁴
Projected Feature Revenue Per Line: \$6.00
Projected Long Distance Revenue Per Line: \$6.00

Commercial Service Offerings:

Businesses Passed – Year 1: 120
Businesses Passed – Year 2: 160
Businesses Passed – Year 3: 200

Projected Line Count – Year 1: 360
Projected Line Count – Year 2: 480
Projected Line Count – Year 3: 600

Average Lines Per Business: 3

Projected Local Revenue Per Line: \$39.95⁵
Projected Long Distance Revenue Per Line: \$28.00

⁴ Includes Subscriber Line Charge of \$5.00

⁵ Includes Subscriber Line Charge of \$5.00

Operation and maintenance expense includes allocated costs associated with:

- Salaries, wages, and benefits
- Administrative expenses
- Billing services
- Insurance
- Vehicle expense
- Building and substation expenses

BTES allocates \$250,340 in salaries, wages, and benefits to the Telephone Business Unit in Year 1. The allocations flow from Appendix B to the Cost Allocation Manual.

BTES allocates the salaries, wages, and benefits of the General Manager, Board of Directors, Project Coordinator, Secretary to the Director of Management Services, Accounting and Finance Department, and Building Maintenance using the General Allocator. The percentage allocated to the Telephone Business Unit is 8.89 percent.

BTES allocates the salary and benefits of the Customer Service Representatives to the Telephone Business Unit using the Customer Service Allocator. BTES estimates that 10 percent of their time will be spent on the Telephone Business Unit.

BTES allocates the salary, wages, and benefits of the Director of Management Services, the Director of Engineering, and the Director and Secretary of Operations and Safety based on the composite weighted average of their respective departments. The Director of Management Services is allocated 9.80 percent to the Telephone Business Unit. The Director of Engineering is allocated 5.06 percent to the Telephone Business Unit. The Director and Secretary of Operations and Safety are allocated 1.68 percent to the Telephone Business Unit.

Engineers and Draftsmen will use timesheets. BTES estimates that 2 percent of their time, with one exception, will be related to the Telephone Business Unit. BTES estimates that one engineer will devote 10 percent of his time to the Telephone Business Unit.

BTES allocates the salary, wages, and benefits of the Night Dispatchers based on the Total Services Allocator. BTES estimates that 12.51 percent of their time will be devoted to the Telephone Business Unit.

The Network Supervisor will use timesheets. BTES estimates that 10 percent of his time will be devoted to the Telephone Business Unit.

The Construction and Meters and Substations employees will use timesheets. There are 21 employees in these two groups. BTES estimates that 16 of these employees will devote 1 percent of their time to the Telephone Business Unit. BTES estimates that 5 of these employees will devote 5 percent of their time to the Telephone Business Unit.

BTES will allocate the time of the Garage Mechanics using the Vehicles Allocator. BTES estimates that they will devote 3.86 percent of their time to the Telephone Business Unit.

BTES estimates that the Supervisor of Purchasing and Stores will devote 2 percent of his time to the Telephone Business Unit.

The Storekeeper will use the Materials Issues Allocator to allocate his time. BTES estimates that he will devote 1.25 percent of his time to the Telephone Business Unit.

The Meter Readers will use timesheets. BTES estimates that they will devote 1 percent of their time to the Telephone Business Unit.

Business Development will use the Weighted Average Commercial and Industrial Customers Allocator. BTES estimates that they will devote 5.14 percent of their time to the Telephone Business Unit.

The Help Desk Personnel will use the Customer Calls Allocator. BTES estimates that they will devote 20 percent of their time to the Telephone Business Unit.

BTES allocates \$37,612 in administrative expenses to the Telephone Business Unit in Year 1. Administrative services include office supplies, postage, telephone, professional services, software support, etc.

BTES allocates expenses related to software support, legal fees, and postage using the Total Services Allocator. BTES estimates that 12.51 percent of these costs will be allocated to the Telephone Business Unit.

BTES allocates expenses related to office supplies and employee expenses using the Employee Hours Allocator. BTES estimates that 7.02 percent of these costs will be allocated to the Telephone Business Unit.

BTES allocates audit fees using the General Allocator.

BTES allocates \$30,765 in billing expenses to the Telephone Business Unit in Year 1. BTES allocates these expenses using the Total Services Allocator.

BTES allocates \$20,846 in insurance to the Telephone Business Unit.

BTES allocates property, contract equipment, electronic data processing, and boiler/machine coverage using the Total Plant in Service Allocator. BTES allocates 4.42 percent of these expenses to the Telephone Business Unit.

BTES allocates the general liability, crime, umbrella, and directors' and officers liability coverage using the General Allocator. BTES allocates 8.89 percent of these expenses to the Telephone Business Unit.

BTES allocates the employment practice liability, employee benefits, and workers' compensation coverage using the Employee Hours Allocator. BTES allocates 7.02 percent of these expenses to the Telephone Business Unit.

BTES allocates the vehicle coverage using the Vehicles Allocator. BTES allocates 3.86 percent of this expense to the Telephone Business Unit.

BTES allocates \$6,679 of vehicle expense to the Telephone Business Unit using the Vehicles Allocator.

BTES allocates \$14,037 of costs associated with the general office building and the substations to the Telephone Business Unit. BTES allocates costs of the general office building using the General Allocator. BTES allocates costs of the substations using the Substations Allocator.

BTES budgets \$11,538 of costs associated with fees and charges paid to the Incumbent Local Exchange Carrier during Year 1. This budgeted amount is based on a charge of \$6.17 per incumbent subscriber line converted to BTES. This charge is based on preliminary review of various Interconnection Agreements and will be determined upon negotiation of final ICA between BTES and its serving LEC.

BTES is directly assigning budgetary expenditures for Year 1 of the Telephone Business Unit for Maintenance and Repairs, Marketing and Advertising and Materials in the amounts of \$14,985, \$36,000, and \$10,000 respectively. These budgetary expenditures are based on management's experience and expectations of operational performance.

26) Has Mr. Dwight S. Work participated in the development of any similar CAMs that sought to divide joint costs between regulated/monopoly and non-regulated/competitive type services for municipal utilities?

RESPONSE: Mr. Work has participated in studies that divided costs between regulated/monopoly and non-regulated/competitive type services for municipal corporations. The only study that produced a similar type Cost Allocation Manual for a municipal corporation involved Jackson Energy Authority.

27) Please describe in detail the nature of the services provided by CCG Consulting or any other outside party to BTES regarding the municipal provision of cable television, Internet and/or telephone service.

RESPONSE: Dwight Work has provided consulting services relating to cost allocation and related costing issues in the preparation of the business plans, the financial portions of the Application, and *pro forma* financial statements. Harbor Network Services, Inc. has provided technical and management support through the portion of this process completed today. The Corporate Image, Inc. of Bristol, Tennessee, conducted a customer opinion survey and has provided consulting services relating to public relations and advertising matters.

28) To what extent has BTES reviewed and/or incorporated the business plans/cases generated by the Bristol Virginia Utilities ("BVU") regarding its municipal provision of cable television, Internet and telephone services?

RESPONSE: No such documents have been reviewed or incorporated.

29) In BTES' September 27, 2004 letter to the Comptroller, BTES mentions that it has surveyed its customers. Please provide all results of this survey and any other survey of area customers regarding the municipal provision of cable television, Internet and/or telephone service, including the specific questions(s) asked.

RESPONSE: See attached documents.

**Bristol Tennessee Essential Services
Preliminary Marketing Survey Methodology**

Sample Size

A statistically valid sample of the Bristol Tennessee market required a minimum of 300 respondents. For the BTES sampling, we chose a target of 400 respondents.

Market

The market included current customers of BTES. The company has 31,000 customers in its service area.

Data

A random sampling of the market was derived from BTES customer records cross referenced with phone listings. Utilizing this base, we divided the list into three separate groups as we were utilizing three individuals to make the calls.

Survey

The survey was designed to get a baseline level of support of BTES entering the cable TV, high-speed Internet and telephony market. Questions were specifically written to achieve an accurate baseline (no leading questions).

Surveyors

Three students from King College in Bristol Tennessee were selected to conduct the survey. Students were selected specifically because research shows students who identify themselves as such are more likely to get a valid and honest response. In addition, caller ID on a BTES customer's phone would validate them as college students by show up as "King College."

The students were trained in phone etiquette and provided with a script that left no room for deviation or interpretation.

Time

Students made phone calls between the hours of 6 p.m. and 9 p.m. Tuesday through Thursday. No weekend or Friday evenings were allowed, as this may have skewed our sampling if people were not at home for any reason.

BTES Customer Survey

1. Are you or anyone in your immediate family employed by Charter Communications, Sprint, BTES, City of Bristol or an Internet provider?

Yes - 5 %

No - 95%

2. On a scale of 1 to 10, 10 being the highest, how satisfied are you with your current BTES services?

| | | | | | | | | | |
|---|---|---|---|----|----|----|-----|-----|-----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | | | | 2% | 4% | 3% | 14% | 20% | 60% |

3. Which company currently provides your cable television service?

Charter - 74%

Satellite TV- 15%

Comcast - 1%

None/Don't have cable - 9%

Don't Know/Refused - 1%

4. On a scale of 1 to 10, 10 being the highest, how satisfied are you with your current cable TV service? (only asked of respondents with cable TV)

| | | | | | | | | | |
|----|----|----|----|----|----|-----|-----|-----|-----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 4% | 3% | 7% | 4% | 9% | 8% | 13% | 15% | 16% | 21% |

5. If BTES offered cable TV service at a similar or lower price, would you sign up?

Yes - 58%

Maybe - 25%

No - 11%

Don't Know/Refused - 6%

6. Do you have a computer at home?

Yes - 63%

No - 37%

7. Do you have an Internet connection? (Only asked of respondents with computer)

Yes - 93%

No 7%

8. On a scale of 1 to 10, 10 being the highest, how satisfied are you with your current Internet provider?

| | | | | | | | | | |
|----|----|----|----|----|-----|-----|-----|-----|-----|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1% | 1% | 3% | 6% | 6% | 11% | 16% | 23% | 17% | 16% |

| | | | |
|--|-------------|---------|-------------------------|
| 9. If BTES offered Internet service at a similar or lower price, would you switch? | | | |
| Yes - 67% | Maybe - 24% | No - 6% | Don't Know/Refused - 3% |

| | | | | | | | | | |
|--|----|----|----|----|----|-----|-----|-----|-----|
| 10. On a scale of 1 to 10, 10 being the highest, how satisfied are you with your current telephone provider? | | | | | | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 2% | 1% | 1% | 2% | 8% | 6% | 10% | 20% | 21% | 28% |

| | |
|--|--------------------------|
| 11. If BTES offered telephone service at a similar or lower price, would you switch? | |
| Yes - 59% | Maybe - 15% |
| No - 15% | Don't Know/Refused - 11% |

| | |
|---|--------------------------|
| 12. Which factor would be most important in a decision to switch to BTES? | |
| Price - 55% | Service - 9% |
| Quality of Product - 20% | Reputation of BTES - 5% |
| Don't like current provider - 1% | Don't Know/Refused - 10% |

| | | |
|---|---------|-------------------------|
| 13. Do you think BTES should begin to provide cable TV, Internet and phone service? | | |
| Yes - 89% | No - 4% | Don't Know/Refused - 7% |

| | | |
|---|-------|-------------------------|
| 14. Do you think it is important for local dollars spent on cable TV and Internet to stay in Bristol? | | |
| Yes - 94% | No 1% | Don't Know/Refused - 5% |

| | |
|------------|------------|
| 15. Gender | |
| Male 44% | Female 56% |

| | | | |
|---------------------------------|-------------|-------------------|--------------|
| 16. Which age range do you fit? | | | |
| 18-24 - 4% | 25-34 - 10% | 35-44 - 14% | |
| 45-54 - 18% | 55-64 - 22% | 65 or older - 31% | Refused - 1% |

30) Please provide a copy of BTES' Comprehensive Annual Financial Report for Year Ended June 20, 2005 and any other reporting of its performance to public.

RESPONSE: This report will not be available until mid-December but will be provided as soon as it is received by BTES from, its accountants. Attached are copies of monthly reports submitted to the BTES board.

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
TELEPHONE BUSINESS UNIT**

July 2005
\$(000)

**LINE
NO.**

ASSETS

**July
2005**

Fixed Assets

| | | |
|----------|--------------------------------------|--------------|
| 1 | Total Telephone Plant | \$0.0 |
| 2 | Less Accumulated Depreciation | 0.0 |
| 3 | Net Plant | 0.0 |

Other Assets

| | | |
|-----------|---------------------------|-------------|
| 12 | Start Up Costs | 43.9 |
| 13 | Total Other Assets | 43.9 |

| | | |
|-----------|---------------------|---------------|
| 14 | TOTAL ASSETS | \$43.9 |
|-----------|---------------------|---------------|

LIABILITIES AND EQUITY

Long-Term Debt

| | | |
|-----------|--|---------------|
| 20 | Loan from Electric Business Unit | 43.9 |
| 21 | Equity in Telephone Business Unit | 0.0 |
| 22 | TOTAL LIABILITIES AND EQUITY | \$43.9 |

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
CABLE/INTERNET BUSINESS UNIT**

July 2005
\$(000)

**LINE
NO.**

ASSETS

July
2005

Fixed Assets

| | | |
|---|-------------------------------|----------------|
| 1 | Total Cable/Internet Plant | \$1,449.6 |
| 2 | Less Accumulated Depreciation | 0.0 |
| 3 | Net Plant | <u>1,449.6</u> |

Other Assets

| | | |
|----|--------------------|-------------|
| 12 | Start Up Costs | 66.7 |
| 13 | Total Other Assets | <u>66.7</u> |

| | | |
|----|--------------|------------------|
| 14 | TOTAL ASSETS | <u>\$1,516.3</u> |
|----|--------------|------------------|

LIABILITIES AND EQUITY

Long-Term Debt

| | | |
|----|--|------------------|
| 20 | Loan from Electric Business Unit | <u>1,516.3</u> |
| 21 | Equity in Cable/Internet Business Unit | <u>0.0</u> |
| 22 | TOTAL LIABILITIES AND EQUITY | <u>\$1,516.3</u> |

BRISTOL TENNESSEE ESSENTIAL SERVICE
COMPARATIVE BALANCE SHEET
ELECTRIC BUSINESS UNIT
August 2005
\$(000)

LINE
NO.

| ASSETS | August 2005 | June 2005 |
|---|------------------------|----------------------|
| Fixed Assets | | |
| 1 Total Electric Plant | \$72,245.6 | \$71,024.2 |
| 2 Less Accumulated Depreciation | 39,468.0 | 39,157.5 |
| 3 Net Plant | 32,777.6 | 31,866.7 |
| Current Assets | | |
| 4 Cash | 583.8 | 1,180.0 |
| 5 Temporary Cash Investments | 6,199.0 | 5,771.5 |
| 6 Construction Fund | 22,613.0 | |
| 7 Accounts Receivable | 3,391.9 | 3,451.6 |
| 8 Materials & Supplies | 1,492.4 | 881.2 |
| 9 Prepaid Expenses | 89.2 | 148.1 |
| 10 Total Current Assets | 34,369.3 | 11,432.4 |
| Other Assets | | |
| 11 Renewal & Replacement Fund | 8,774.5 | 8,242.3 |
| 12 Conservation Loans Receivable | 2,544.0 | 2,539.0 |
| 13 Deferred Debits & Other Assets | 7,461.1 | 8,775.9 |
| 14 TVA DEU | 6,288.8 | 6,404.4 |
| 15 Loan to Cable/Internet Business Unit | 1,692.6 | 59.7 |
| 16 Loan to Telephone Business Unit | 186.9 | 42.4 |
| 17 Total Other Assets | 26,947.9 | 26,063.7 |
| 18 TOTAL ASSETS | \$94,094.8 | \$69,362.8 |

LIABILITIES AND EQUITY IN ELECTRIC SYSTEM

| | | |
|----------------------------------|------------|------------|
| Current Liabilities | | |
| 19 Accounts Payable | 5,689.8 | 5,346.4 |
| 20 Customer Deposits | 2,055.8 | 2,029.9 |
| 21 Accrued Taxes and Equivalents | 408.0 | 214.5 |
| 22 Accrued Expenses | 706.7 | 564.5 |
| 23 Total Current Liabilities | 8,860.3 | 8,155.3 |
| Long-Term Debt | | |
| 24 Electric System Bonds | 24,002.8 | 0.0 |
| 25 Equity in Electric System | 61,231.7 | 61,207.5 |
| 26 TOTAL LIABILITIES AND EQUITY | \$94,094.8 | \$69,362.8 |

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
ELECTRIC BUSINESS UNIT**

July 2005

\$(000)

LINE

NO.

ASSETS

| | July 2005 | June 2005 |
|-----------------------------------|--------------|--------------|
| <u>Fixed Assets</u> | | |
| 1 Total Electric Plant | \$71,744.3 | \$71,024.2 |
| 2 Less Accumulated Depreciation | 39,299.2 | 39,157.5 |
| 3 Net Plant | 32,445.1 | 31,866.7 |
| <u>Current Assets</u> | | |
| 4 Cash | 242.7 | 1,180.0 |
| 5 Temporary Cash Investments | 8,061.9 | 5,771.5 |
| 6 Construction Fund | 22,547.0 | |
| 7 Accounts Receivable | 2,836.2 | 3,451.6 |
| 8 Materials & Supplies | 1,271.5 | 881.2 |
| 9 Prepaid Expenses | 117.6 | 148.1 |
| 10 Total Current Assets | 35,076.9 | 11,432.4 |
| <u>Other Assets</u> | | |
| 11 Renewal & Replacement Fund | 6,250.9 | 8,242.3 |
| 12 Conservation Loans Receivable | 2,548.3 | 2,539.0 |
| 13 Deferred Debits & Other Assets | 10,011.9 | 8,775.9 |
| 14 TVA DEU | 6,346.7 | 6,404.4 |
| 15 Total Other Assets | 25,157.8 | 25,961.6 |
| 16 TOTAL ASSETS | \$92,679.8 | \$69,260.7 |

LIABILITIES AND EQUITY IN ELECTRIC SYSTEM

Current Liabilities

| | | |
|----------------------------------|---------|---------|
| 17 Accounts Payable | 4,669.5 | 5,346.4 |
| 18 Customer Deposits | 2,040.2 | 2,029.9 |
| 19 Accrued Taxes and Equivalents | 311.2 | 214.5 |
| 20 Accrued Expenses | 611.4 | 564.5 |
| 21 Total Current Liabilities | 7,632.3 | 8,155.3 |

Long-Term Debt

| | | |
|---------------------------------|------------|------------|
| 22 Electric System Bonds | 24,002.8 | 0.0 |
| 23 Equity in Electric System | 61,044.7 | 61,105.4 |
| 24 TOTAL LIABILITIES AND EQUITY | \$92,679.8 | \$69,260.7 |

**BRISTOL TENNESSEE ELECTRIC SYSTEM
STATEMENT OF INCOME AND EXPENSES
ELECTRIC BUSINESS UNIT**

July 2005

\$(000)

| LINE NO. | July 2005 | ACTUAL YTD | BUDGET YTD | FY 2005 ACTUAL YTD | FY 2006 BUDGET |
|---|--------------|---------------|---------------|--------------------------|-------------------|
| <u>Operating Revenue</u> | | | | | |
| 1 Electric Sales | \$4,630.7 | \$4,630.7 | \$4,601.5 | \$4,601.5 | \$57,571.3 |
| 2 Other Electric Revenue | 212.9 | 212.9 | 233.6 | 146.1 | 2,626.9 |
| 3 Total Operating Revenue | 4,843.6 | 4,843.6 | 4,835.1 | 4,747.6 | 60,198.2 |
| <u>Operating Expense</u> | | | | | |
| 4 Transmission & Distribution | 31.8 | 31.8 | 51.5 | 48.7 | 677.0 |
| 5 Customer Accounts Expense | 59.9 | 59.9 | 63.9 | 56.7 | 946.2 |
| 6 Customer Service Expense | 23.4 | 23.4 | 29.9 | 17.2 | 368.5 |
| 7 Administrative & General | 91.9 | 91.9 | 87.6 | 69.8 | 1,000.1 |
| 8 Maintenance Expense | 187.2 | 187.2 | 204.3 | 187.7 | 2,669.3 |
| 9 Total Operating & Maintenance | 394.2 | 394.2 | 437.2 | 380.1 | 5,661.1 |
| 10 Purchased Power | 4,034.1 | 4,034.1 | 4,046.9 | 3,965.5 | 50,621.1 |
| <u>Other Operating Expense</u> | | | | | |
| 11 Depreciation Expense | 162.3 | 162.3 | 182.7 | 161.1 | 2,246.6 |
| 12 Taxes & Tax Equivalents | 475.6 | 475.6 | 127.5 | 181.1 | 1,443.2 |
| 13 Total Other Operating Expense | 637.9 | 637.9 | 310.2 | 342.2 | 3,689.8 |
| 14 Total Operating Expense | 5,066.2 | 5,066.2 | 4,794.3 | 4,687.8 | 59,972.0 |
| <u>Income</u> | | | | | |
| 15 Operating Income | (222.6) | (222.6) | 40.8 | 59.8 | 226.2 |
| 16 Other Income | 81.0 | 81.0 | 42.8 | 20.6 | 722.4 |
| 17 Interest from DEU | 29.3 | 29.3 | 29.3 | 32.5 | 334.5 |
| 18 Net Income Before Debt Expense | (112.3) | (112.3) | 112.9 | 112.9 | 1,283.1 |
| <u>Debt Expense</u> | | | | | |
| 19 Interest on Long-Term Debt (Deposits | 0.6 | 0.6 | 1.2 | 0.6 | 14.4 |
| 20 Interest on LT Debt-Bonds | 49.8 | 49.8 | 85.1 | | 1,021.2 |
| 20 NET INCOME | (\$162.7) | (\$162.7) | \$26.6 | \$112.3 | \$247.5 |

BRISTOL TENNESSEE ESSENTIAL SERVICES

STATISTICAL DATA

ELECTRIC BUSINESS UNIT

July 2005

Electric Sales

| LINE | | No. | KWH | KWH/ | | Cents/ |
|------|--------------------|--------|--------|--------|-------------|--------|
| No. | Class | Cust. | (000) | Cust. | Revenue | KWH |
| 1 | Residential | 26,973 | 35,810 | 1,328 | \$2,169,998 | 6.06 |
| 2 | Small Ltg. & Power | 3,215 | 4,723 | 1,469 | 341,208 | 7.22 |
| 3 | Large Ltg. & Power | 544 | 37,231 | 68,439 | 2,042,128 | 5.49 |
| 4 | Street & ODL | 189 | 789 | | 77,348 | 9.80 |
| 5 | Total 07/31/05 | 30,921 | 78,553 | | \$4,630,680 | 5.89 |
| 6 | Total 07/31/04 | 31,766 | 80,153 | | \$4,601,499 | 5.74 |

FY to Date - (1 Month)

| | | | | | | |
|----|--------------------|--------|--------|--------|-------------|------|
| 7 | Residential | 26,973 | 35,810 | 1,328 | 2,169,998 | 6.06 |
| 8 | Small Ltg. & Power | 3,215 | 4,723 | 1,469 | 341,208 | 7.22 |
| 9 | Large Ltg. & Power | 544 | 37,231 | 68,439 | 2,042,128 | 5.49 |
| 10 | Street & ODL | 189 | 789 | | 77,348 | 9.80 |
| 11 | Total FY 2006 | 30,921 | 78,553 | | \$4,630,680 | 5.89 |
| 12 | Total FY 2005 | 31,766 | 80,153 | | 4,601,499 | 5.74 |

Power Purchases

| | KWH | | Cents/ |
|----------------|--------------|-------------|------------|
| | <u>(000)</u> | <u>Cost</u> | <u>KWH</u> |
| 13 July 2005 | 82,088 | \$4,034,104 | 4.91 |
| 14 July 2004 | 83,760 | \$3,965,472 | 4.73 |
| 15 YTD FY 2006 | 82,088 | \$4,034,104 | 4.91 |
| 16 YTD FY 2005 | 83,760 | \$3,965,472 | 4.73 |

Weather Data

| | <u>Normal FY</u> | | <u>Current Month</u> | | <u>Previous FY</u> | |
|-----------------|------------------|------------|----------------------|------------|--------------------|------------|
| | <u>July</u> | <u>YTD</u> | <u>07-05</u> | <u>YTD</u> | <u>07-04</u> | <u>YTD</u> |
| 17 DD - Heating | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 DD - Cooling | 315 | 315 | 345 | 345 | 278 | 278 |

Miscellaneous Consumer Data

| | <u>07/31/05</u> | <u>06/30/05</u> | <u>FY Increase</u> |
|--------------------------------|-----------------|-----------------|--------------------|
| 19 No. Conservation Loan | 7974 | 7960 | 14 |
| 20 Load Management/Storage W/H | 13449 | 13380 | 69 |

BRISTOL TENNESSEE ESSENTIAL SERVICES

STATISTICAL DATA

ELECTRIC BUSINESS UNIT

August 2005

Electric Sales

| LINE | | No. | KWH | KWH/ | | Cents/ |
|------------|--------------------|--------------|--------------|--------------|----------------|------------|
| <u>No.</u> | <u>Class</u> | <u>Cust.</u> | <u>(000)</u> | <u>Cust.</u> | <u>Revenue</u> | <u>KWH</u> |
| 1 | Residential | 28,904 | 39,661 | 1,372 | \$2,391,320 | 6.03 |
| 2 | Small Ltg. & Power | 3,673 | 5,734 | 1,561 | 411,342 | 7.17 |
| 3 | Large Ltg. & Power | 691 | 42,580 | 61,621 | 2,626,248 | 6.17 |
| 4 | Street & ODL | 206 | 837 | | 80,251 | 9.59 |
| 5 | Total 08/31/05 | 33,474 | 88,812 | | \$5,509,160 | 6.20 |
| 6 | Total 08/31/04 | 31,831 | 77,767 | | \$4,411,969 | 5.67 |

FY to Date - (2 Months)

| | | | | | | |
|----|--------------------|--------|---------|--------|--------------|------|
| 7 | Residential | 55,877 | 75,471 | 1,351 | \$4,561,318 | 6.04 |
| 8 | Small Ltg. & Power | 6,888 | 10,457 | 1,518 | 752,550 | 7.20 |
| 9 | Large Ltg. & Power | 1,235 | 79,811 | 64,624 | 4,668,376 | 5.85 |
| 10 | Street & ODL | 395 | 1,626 | | 157,597 | 9.69 |
| 11 | Total FY 2006 | 64,395 | 167,365 | | \$10,139,841 | 6.06 |
| 12 | Total FY 2005 | 63,597 | 157,920 | | \$9,013,468 | 5.71 |

Power Purchases

| | | KWH | | Cents/ |
|----|-------------|---------|-------------|--------|
| | | (000) | Cost | KWH |
| 13 | August 2005 | 92,276 | \$4,837,238 | 5.24 |
| 14 | August 2004 | 83,760 | \$3,965,472 | 4.73 |
| 15 | YTD FY 2006 | 174,364 | \$8,871,342 | 5.09 |
| 16 | YTD FY 2005 | 165,027 | \$7,800,463 | 4.73 |

Weather Data

| | <u>Normal FY</u> | | <u>Current Month</u> | | <u>Previous FY</u> | |
|----|------------------|------------|----------------------|------------|--------------------|------------|
| | <u>August</u> | <u>YTD</u> | <u>08-05</u> | <u>YTD</u> | <u>08-04</u> | <u>YTD</u> |
| 17 | DD - Heating | 0 0 | 0 0 | | 6 6 | |
| 18 | DD - Cooling | 270 585 | 352 697 | | 188 466 | |

Miscellaneous Consumer Data

| | | 08/31/05 | 06/30/05 | FY Increase |
|----|-----------------------------|----------|----------|-------------|
| 19 | No. Conservation Loan | 7987 | 7960 | 27 |
| 20 | Load Management/Storage W/H | 13498 | 13380 | 118 |

**BRISTOL TENNESSEE ELECTRIC SYSTEM
STATEMENT OF INCOME AND EXPENSES
ELECTRIC BUSINESS UNIT**

August 2005

\$(000)

| LINE NO. | August 2005 | ACTUAL YTD | BUDGET YTD | FY 2005 ACTUAL YTD | FY 2006 BUDGET |
|---|----------------|---------------|---------------|--------------------------|-------------------|
| <u>Operating Revenue</u> | | | | | |
| 1 Electric Sales | \$5,509.2 | \$10,139.8 | \$9,013.5 | \$9,013.5 | \$57,571.3 |
| 2 Other Electric Revenue | 179.2 | 392.1 | 381.6 | 348.3 | 2,626.9 |
| 3 Total Operating Revenue | 5,688.4 | 10,531.9 | 9,395.1 | 9,361.8 | 60,198.2 |
| <u>Operating Expense</u> | | | | | |
| 4 Transmission & Distribution | 39.9 | 71.7 | 97.9 | 81.8 | 677.0 |
| 5 Customer Accounts Expense | 79.5 | 139.4 | 139.8 | 126.6 | 946.2 |
| 6 Customer Service Expense | 29.5 | 52.8 | 54.3 | 34.3 | 368.5 |
| 7 Administrative & General | 90.5 | 182.4 | 188.0 | 162.9 | 1,000.1 |
| 8 Maintenance Expense | 222.5 | 409.7 | 424.8 | 392.2 | 2,669.3 |
| 9 Total Operating & Maintenance | 461.9 | 856.0 | 904.8 | 797.8 | 5,661.1 |
| 10 Purchased Power | 4,837.2 | 8,871.3 | 7,963.3 | 7,800.5 | 50,621.1 |
| <u>Other Operating Expense</u> | | | | | |
| 11 Depreciation Expense | 162.5 | 324.9 | 365.4 | 322.2 | 2,246.6 |
| 12 Taxes & Tax Equivalents | 113.6 | 589.1 | 245.6 | 275.0 | 1,443.2 |
| 13 Total Other Operating Expense | 276.1 | 914.0 | 611.0 | 597.2 | 3,689.8 |
| 14 Total Operating Expense | 5,575.2 | 10,641.3 | 9,479.1 | 9,195.5 | 59,972.0 |
| <u>Income</u> | | | | | |
| 15 Operating Income | 113.2 | (109.4) | (84.0) | 166.3 | 226.2 |
| 16 Other Income | 70.5 | 151.7 | 90.1 | 45.6 | 722.4 |
| 17 Interest from DEU | 29.1 | 58.4 | 58.4 | 64.6 | 334.5 |
| 18 Net Income Before Debt Expense | 212.8 | 100.7 | 64.5 | 276.5 | 1,283.1 |
| <u>Debt Expense</u> | | | | | |
| 19 Interest on Long-Term Debt (Deposits | 0.0 | 0.7 | 2.4 | 1.2 | 14.4 |
| 20 Interest on LT Debt-Bonds | 25.9 | 75.8 | 170.2 | | 1,021.2 |
| 20 NET INCOME | \$186.9 | \$24.2 | (\$108.1) | \$275.3 | \$247.5 |

BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
ELECTRIC BUSINESS UNIT
August 2005
\$(000)

LINE
NO.

| ASSETS | | August | June |
|-----------------------|--------------------------------------|------------|------------|
| | | 2005 | 2005 |
| Fixed Assets | | | |
| 1 | Total Electric Plant | \$72,245.6 | \$71,024.2 |
| 2 | Less Accumulated Depreciation | 39,468.0 | 39,157.5 |
| 3 | Net Plant | 32,777.6 | 31,866.7 |
| Current Assets | | | |
| 4 | Cash | 583.8 | 1,180.0 |
| 5 | Temporary Cash Investments | 6,199.0 | 5,771.5 |
| 6 | Construction Fund | 22,613.0 | |
| 7 | Accounts Receivable | 3,391.9 | 3,451.6 |
| 8 | Materials & Supplies | 1,492.4 | 881.2 |
| 9 | Prepaid Expenses | 89.2 | 148.1 |
| 10 | Total Current Assets | 34,369.3 | 11,432.4 |
| Other Assets | | | |
| 11 | Renewal & Replacement Fund | 8,774.5 | 8,242.3 |
| 12 | Conservation Loans Receivable | 2,544.0 | 2,539.0 |
| 13 | Deferred Debits & Other Assets | 7,461.1 | 8,775.9 |
| 14 | TVA DEU | 6,288.8 | 6,404.4 |
| 15 | Loan to Cable/Internet Business Unit | 1,692.6 | 59.7 |
| 16 | Loan to Telephone Business Unit | 186.9 | 42.4 |
| 17 | Total Other Assets | 26,947.9 | 26,063.7 |
| 18 | TOTAL ASSETS | \$94,094.8 | \$69,362.8 |

LIABILITIES AND EQUITY IN ELECTRIC SYSTEM

| | | | |
|----------------------------|-------------------------------|------------|------------|
| Current Liabilities | | | |
| 19 | Accounts Payable | 5,689.8 | 5,346.4 |
| 20 | Customer Deposits | 2,055.8 | 2,029.9 |
| 21 | Accrued Taxes and Equivalents | 408.0 | 214.5 |
| 22 | Accrued Expenses | 706.7 | 564.5 |
| 23 | Total Current Liabilities | 8,860.3 | 8,155.3 |
| Long-Term Debt | | | |
| 24 | Electric System Bonds | 24,002.8 | 0.0 |
| 25 | Equity in Electric System | 61,231.7 | 61,207.5 |
| 26 | TOTAL LIABILITIES AND EQUITY | \$94,094.8 | \$69,362.8 |

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
CABLE/INTERNET BUSINESS UNIT**

**August 2005
\$(000)**

**LINE
NO.**

ASSETS

**August
2005**

Fixed Assets

- 1 Total Cable/Internet Plant**
- 2 Less Accumulated Depreciation**
- 3 Net Plant**

**\$1,581.2
0.0
1,581.2**

Other Assets

- 12 Start Up Costs**
- 13 Total Other Assets**

**111.4
111.4**

14 TOTAL ASSETS

\$1,692.6

LIABILITIES AND EQUITY

Long-Term Debt

- 20 Loan from Electric Business Unit**
- 21 Equity in Cable/Internet Business Unit**

1,692.6

0.0

22 TOTAL LIABILITIES AND EQUITY

\$1,692.6

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
TELEPHONE BUSINESS UNIT**

August 2005

\$(000)

**LINE
NO.**

ASSETS

**August
2005**

Fixed Assets

1 Total Telephone Plant

\$0.0

2 Less Accumulated Depreciation

0.0

3 Net Plant

0.0

Other Assets

12 Start Up Costs

186.9

13 Total Other Assets

186.9

14 TOTAL ASSETS

\$186.9

LIABILITIES AND EQUITY

Long-Term Debt

20 Loan from Electric Business Unit

186.9

21 Equity in Telephone Business Unit

0.0

22 TOTAL LIABILITIES AND EQUITY

\$186.9

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
TELEPHONE BUSINESS UNIT**

September 2005

\$(000)

**LINE
NO.**

ASSETS

**September
2005**

Fixed Assets

| | | |
|----------|--------------------------------------|--------------|
| 1 | Total Telephone Plant | \$0.0 |
| 2 | Less Accumulated Depreciation | 0.0 |
| 3 | Net Plant | 0.0 |

Other Assets

| | | |
|-----------|---------------------------|--------------|
| 12 | Start Up Costs | 208.8 |
| 13 | Total Other Assets | 208.8 |

| | | |
|-----------|---------------------|----------------|
| 14 | TOTAL ASSETS | \$208.8 |
|-----------|---------------------|----------------|

LIABILITIES AND EQUITY

Long-Term Debt

| | | |
|-----------|---|--------------|
| 20 | Loan from Electric Business Unit | 208.8 |
|-----------|---|--------------|

| | | |
|-----------|--|------------|
| 21 | Equity in Telephone Business Unit | 0.0 |
|-----------|--|------------|

| | | |
|-----------|-------------------------------------|----------------|
| 22 | TOTAL LIABILITIES AND EQUITY | \$208.8 |
|-----------|-------------------------------------|----------------|

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
CABLE/INTERNET BUSINESS UNIT
September 2005
\$(000)**

**LINE
NO.**

ASSETS

**September
2005**

Fixed Assets

- 1 Total Cable/Internet Plant**
- 2 Less Accumulated Depreciation**
- 3 Net Plant**

\$1,581.2

0.0

1,581.2

Other Assets

- 12 Start Up Costs**
- 13 Total Other Assets**

533.0

533.0

14 TOTAL ASSETS

\$2,114.2

LIABILITIES AND EQUITY

Long-Term Debt

- 20 Loan from Electric Business Unit**
- 21 Equity in Cable/Internet Business Unit**
- 22 TOTAL LIABILITIES AND EQUITY**

2,114.2

0.0

\$2,114.2

BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
ELECTRIC BUSINESS UNIT
September 2005
\$(000)

LINE
NO.

| ASSETS | September 2005 | June 2005 |
|---|---------------------------|----------------------|
| <u>Fixed Assets</u> | | |
| 1 Total Electric Plant | \$73,040.1 | \$71,024.2 |
| 2 Less Accumulated Depreciation | 39,635.2 | 39,157.5 |
| 3 Net Plant | 33,404.9 | 31,866.7 |
| <u>Current Assets</u> | | |
| 4 Cash | 1,852.0 | 1,180.0 |
| 5 Temporary Cash Investments | 5,532.3 | 5,771.5 |
| 6 Construction Fund | 21,961.6 | |
| 7 Accounts Receivable | 2,781.2 | 3,451.6 |
| 8 Materials & Supplies | 2,059.1 | 881.2 |
| 9 Prepaid Expenses | 58.6 | 148.1 |
| 10 Total Current Assets | 34,244.8 | 11,432.4 |
| <u>Other Assets</u> | | |
| 11 Renewal & Replacement Fund | 8,774.5 | 8,242.3 |
| 12 Conservation Loans Receivable | 2,537.4 | 2,539.0 |
| 13 Deferred Debits & Other Assets | 6,691.0 | 8,775.9 |
| 14 TVA DEU | 6,230.6 | 6,404.4 |
| 15 Loan to Cable/Internet Business Unit | 2,114.2 | 59.7 |
| 16 Loan to Telephone Business Unit | 208.8 | 42.4 |
| 17 Total Other Assets | 26,556.5 | 26,063.7 |
| 18 TOTAL ASSETS | \$94,206.2 | \$69,362.8 |

LIABILITIES AND EQUITY IN ELECTRIC SYSTEM

| | | |
|-----------------------------------|------------|------------|
| <u>Current Liabilities</u> | | |
| 19 Accounts Payable | 5,437.4 | 5,346.4 |
| 20 Customer Deposits | 2,061.4 | 2,029.9 |
| 21 Accrued Taxes and Equivalents | 504.8 | 214.5 |
| 22 Accrued Expenses | 751.7 | 564.5 |
| 23 Total Current Liabilities | 8,755.3 | 8,155.3 |
| <u>Long-Term Debt</u> | | |
| 24 Electric System Bonds | 24,002.8 | 0.0 |
| 25 Equity in Electric System | 61,448.1 | 61,207.5 |
| 26 TOTAL LIABILITIES AND EQUITY | \$94,206.2 | \$69,362.8 |

**BRISTOL TENNESSEE ELECTRIC SYSTEM
STATEMENT OF INCOME AND EXPENSES
ELECTRIC BUSINESS UNIT**

September 2005

\$(000)

| LINE NO. | September 2005 | ACTUAL YTD | BUDGET YTD | FY 2005 ACTUAL YTD | FY 2006 BUDGET |
|---|-------------------|----------------|-----------------|--------------------------|-------------------|
| <u>Operating Revenue</u> | | | | | |
| 1 Electric Sales | \$5,194.0 | \$15,333.9 | \$13,740.5 | \$13,655.3 | \$57,571.3 |
| 2 Other Electric Revenue | 143.8 | 535.9 | 544.2 | 506.1 | 2,626.9 |
| 3 Total Operating Revenue | 5,337.8 | 15,869.8 | 14,284.7 | 14,161.4 | 60,198.2 |
| <u>Operating Expense</u> | | | | | |
| 4 Transmission & Distribution | 49.3 | 120.9 | 150.7 | 121.1 | 677.0 |
| 5 Customer Accounts Expense | 74.6 | 214.0 | 228.4 | 208.6 | 946.2 |
| 6 Customer Service Expense | 6.8 | 59.6 | 77.9 | 45.1 | 368.5 |
| 7 Administrative & General | 76.0 | 258.4 | 270.6 | 244.0 | 1,000.1 |
| 8 Maintenance Expense | 201.0 | 610.8 | 668.2 | 619.2 | 2,669.3 |
| 9 Total Operating & Maintenance | 407.7 | 1,263.7 | 1,395.8 | 1,238.0 | 5,661.1 |
| 10 Purchased Power | 4,575.0 | 13,446.3 | 12,025.4 | 11,781.2 | 50,621.1 |
| <u>Other Operating Expense</u> | | | | | |
| 11 Depreciation Expense | 162.6 | 487.5 | 548.1 | 483.3 | 2,246.6 |
| 12 Taxes & Tax Equivalents | 113.8 | 703.0 | 364.0 | 369.1 | 1,443.2 |
| 13 Total Other Operating Expense | 276.4 | 1,190.5 | 912.1 | 852.4 | 3,689.8 |
| 14 Total Operating Expense | 5,259.1 | 15,900.5 | 14,333.3 | 13,871.6 | 59,972.0 |
| <u>Income</u> | | | | | |
| 15 Operating Income | 78.7 | (30.7) | (48.6) | 289.8 | 226.2 |
| 16 Other Income | 137.3 | 289.1 | 139.6 | 72.9 | 722.4 |
| 17 Interest from DEU | 28.8 | 87.2 | 87.2 | 96.5 | 334.5 |
| 18 Net Income Before Debt Expense | 244.8 | 345.6 | 178.2 | 459.2 | 1,283.1 |
| <u>Debt Expense</u> | | | | | |
| 19 Interest on Long-Term Debt (Deposits | 2.5 | 3.2 | 3.6 | 1.8 | 14.4 |
| 20 Interest on LT Debt-Bonds | 25.9 | 101.8 | 255.3 | | 1,021.2 |
| 20 NET INCOME | \$216.4 | \$240.6 | (\$80.7) | \$457.4 | \$247.5 |

BRISTOL TENNESSEE ESSENTIAL SERVICES

STATISTICAL DATA

ELECTRIC BUSINESS UNIT

September 2005

Electric Sales

| LINE | No. | KWH | KWH/ | | Cents/ |
|------|--------------------|--------|--------|--------|------------------|
| No. | Class | Cust. | (000) | Cust. | Revenue KWH |
| 1 | Residential | 27,815 | 36,518 | 1,313 | \$2,206,557 6.04 |
| 2 | Small Ltg. & Power | 3,438 | 4,774 | 1,389 | 349,444 7.32 |
| 3 | Large Ltg. & Power | 620 | 42,384 | 68,361 | 2,559,179 6.04 |
| 4 | Street & ODL | 199 | 822 | | 78,869 9.59 |
| 5 | Total 09/30/05 | 32,072 | 84,498 | | \$5,194,049 6.15 |
| 6 | Total 09/30/04 | 33,541 | 81,669 | | \$4,641,803 5.68 |

FY to Date - (3 Months)

| | | | | | |
|----|--------------------|--------|---------|--------|-------------------|
| 7 | Residential | 83,692 | 111,989 | 1,338 | \$6,767,875 6.04 |
| 8 | Small Ltg. & Power | 10,328 | 15,231 | 1,475 | 1,103,094 7.24 |
| 9 | Large Ltg. & Power | 1,855 | 122,195 | 65,873 | 7,228,455 5.91 |
| 10 | Street & ODL | 594 | 2,448 | | 236,466 9.66 |
| 11 | Total FY 2006 | 96,467 | 251,863 | | \$15,333,890 6.09 |
| 12 | Total FY 2005 | 97,138 | 239,589 | | \$13,655,271 5.70 |

Power Purchases

| | KWH | | Cents/ |
|----|----------------|---------|-------------------|
| | (000) | Cost | KWH |
| 13 | September 2005 | 88,301 | \$4,574,981 5.18 |
| 14 | September 2004 | 85,344 | \$3,980,712 4.66 |
| 15 | YTD FY 2006 | 262,665 | \$13,448,323 5.12 |
| 16 | YTD FY 2005 | 250,371 | \$11,781,175 4.71 |

Weather Data

| | Normal FY | | Current Month | | Previous FY | |
|----|--------------|--------|---------------|-----|-------------|-----|
| | September | YTD | 09-05 | YTD | 09-04 | YTD |
| 17 | DD - Heating | 0 0 | 0 0 | | 6 6 | |
| 18 | DD - Cooling | 31 737 | 195 892 | | 188 466 | |

Miscellaneous Consumer Data

| | 09/30/05 | 08/30/05 | FY Increase |
|----|-----------------------------|----------|-------------|
| 19 | No. Conservation Loan | 7992 | 7960 32 |
| 20 | Load Management/Storage W/H | 13541 | 13380 161 |

BRISTOL TENNESSEE ESSENTIAL SERVICES

STATISTICAL DATA

ELECTRIC BUSINESS UNIT

September 2005

Electric Sales

| LINE | | No. | KWH | KWH/ | | Cents/ |
|------|--------------------|--------|--------|--------|-------------|--------|
| No. | Class | Cust. | (000) | Cust. | Revenue | KWH |
| 1 | Residential | 27,815 | 38,518 | 1,313 | \$2,206,557 | 6.04 |
| 2 | Small Ltg. & Power | 3,438 | 4,774 | 1,389 | 349,444 | 7.32 |
| 3 | Large Ltg. & Power | 620 | 42,384 | 68,361 | 2,559,179 | 6.04 |
| 4 | Street & ODL | 199 | 822 | | 78,869 | 9.59 |
| 5 | Total 09/30/05 | 32,072 | 84,498 | | \$5,194,049 | 6.15 |
| 6 | Total 09/30/04 | 33,541 | 81,669 | | \$4,641,803 | 5.68 |

F/Y to Date - (3 Months)

| | | | | | | |
|----|--------------------|--------|---------|--------|--------------|------|
| 7 | Residential | 83,692 | 111,989 | 1,338 | \$8,767,875 | 6.04 |
| 8 | Small Ltg. & Power | 10,326 | 15,231 | 1,475 | 1,103,094 | 7.24 |
| 9 | Large Ltg. & Power | 1,855 | 122,195 | 65,873 | 7,226,455 | 5.91 |
| 10 | Street & ODL | 594 | 2,448 | | 236,466 | 9.66 |
| 11 | Total FY 2006 | 96,467 | 251,863 | | \$15,333,890 | 6.09 |
| 12 | Total FY 2005 | 97,138 | 239,589 | | \$13,655,271 | 5.70 |

Power Purchases

| | | KWH | | Cents/ |
|----|----------------|---------|--------------|--------|
| | | (000) | Cost | KWH |
| 13 | September 2005 | 88,301 | \$4,574,981 | 5.18 |
| 14 | September 2004 | 85,344 | \$3,980,712 | 4.66 |
| 15 | YTD FY 2006 | 262,665 | \$13,448,323 | 5.12 |
| 16 | YTD FY 2005 | 250,371 | \$11,781,175 | 4.71 |

Weather Data

| | <u>Normal FY</u> | | <u>Current Month</u> | | <u>Previous FY</u> | |
|----|------------------|------------|----------------------|------------|--------------------|------------|
| | <u>September</u> | <u>YTD</u> | <u>09-05</u> | <u>YTD</u> | <u>09-04</u> | <u>YTD</u> |
| 17 | DD - Heating | 0 0 | 0 | 0 | 6 | 6 |
| 18 | DD - Cooling | 31 737 | 195 | 892 | 188 | 466 |

Miscellaneous Consumer Data

| | 09/30/05 | 06/30/05 | FY Increase |
|--------------------------------|----------|----------|-------------|
| 19 No. Conservation Loan | 7992 | 7960 | 32 |
| 20 Load Management/Storage W/H | 13541 | 13380 | 161 |

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
TELEPHONE BUSINESS UNIT**

October 2005

\$(000)

**LINE
NO.**

ASSETS

**October
2005**

Fixed Assets

| | | |
|----------|--------------------------------------|--------------|
| 1 | Total Telephone Plant | \$0.0 |
| 2 | Less Accumulated Depreciation | 0.0 |
| 3 | Net Plant | 0.0 |

Other Assets

| | | |
|-----------|---------------------------|--------------|
| 12 | Start Up Costs | 238.0 |
| 13 | Total Other Assets | 238.0 |

| | | |
|-----------|---------------------|----------------|
| 14 | TOTAL ASSETS | \$238.0 |
|-----------|---------------------|----------------|

LIABILITIES AND EQUITY

Long-Term Debt

| | | |
|-----------|---|--------------|
| 20 | Loan from Electric Business Unit | 238.0 |
|-----------|---|--------------|

| | | |
|-----------|--|------------|
| 21 | Equity in Telephone Business Unit | 0.0 |
|-----------|--|------------|

| | | |
|-----------|-------------------------------------|----------------|
| 22 | TOTAL LIABILITIES AND EQUITY | \$238.0 |
|-----------|-------------------------------------|----------------|

**BRISTOL TENNESSEE ESSENTIAL SERVICES
COMPARATIVE BALANCE SHEET
CABLE/INTERNET BUSINESS UNIT
October 2005
\$(000)**

**LINE
NO.**

ASSETS

**October
2005**

Fixed Assets

- 1 Total Cable/Internet Plant**
- 2 Less Accumulated Depreciation**
- 3 Net Plant**

**\$1,665.8
0.0
1,665.8**

Other Assets

- 12 Start Up Costs**
- 13 Total Other Assets**

**982.0
982.0**

14 TOTAL ASSETS

\$2,647.8

LIABILITIES AND EQUITY

Long-Term Debt

- 20 Loan from Electric Business Unit**

2,647.8

- 21 Equity in Cable/Internet Business Unit**

0.0

22 TOTAL LIABILITIES AND EQUITY

\$2,647.8

BRISTOL TENNESSEE ESSENTIAL SERVICE
COMPARATIVE BALANCE SHEET
ELECTRIC BUSINESS UNIT
October 2005
\$(000)

LINE
NO.

| ASSETS | October 2005 | June 2005 |
|---|-------------------------|----------------------|
| <u>Fixed Assets</u> | | |
| 1 Total Electric Plant | \$73,433.8 | \$71,024.2 |
| 2 Less Accumulated Depreciation | 39,799.4 | 39,157.5 |
| 3 Net Plant | 33,634.4 | 31,866.7 |
| <u>Current Assets</u> | | |
| 4 Cash | 1,530.4 | 1,180.0 |
| 5 Temporary Cash Investments | 5,545.2 | 5,771.5 |
| 6 Construction Fund | 22,034.0 | |
| 7 Accounts Receivable | 2,727.1 | 3,451.6 |
| 8 Materials & Supplies | 2,036.7 | 881.2 |
| 9 Prepaid Expenses | 28.0 | 148.1 |
| 10 Total Current Assets | 33,901.4 | 11,432.4 |
| <u>Other Assets</u> | | |
| 11 Renewal & Replacement Fund | 8,787.5 | 8,242.3 |
| 12 Conservation Loans Receivable | 2,532.6 | 2,539.0 |
| 13 Deferred Debits & Other Assets | 6,309.1 | 8,775.9 |
| 14 TVA DEU | 6,172.1 | 6,404.4 |
| 15 Loan to Cable/Internet Business Unit | 2,647.8 | 59.7 |
| 16 Loan to Telephone Business Unit | 238.0 | 42.4 |
| 17 Total Other Assets | 26,687.1 | 26,063.7 |
| 18 TOTAL ASSETS | \$94,222.9 | \$69,362.8 |

LIABILITIES AND EQUITY IN ELECTRIC SYSTEM

| | | |
|-----------------------------------|------------|------------|
| <u>Current Liabilities</u> | | |
| 19 Accounts Payable | 4,876.2 | 5,346.4 |
| 20 Customer Deposits | 2,061.6 | 2,029.9 |
| 21 Accrued Taxes and Equivalents | 618.1 | 214.5 |
| 22 Accrued Expenses | 863.9 | 564.5 |
| 23 Total Current Liabilities | 8,419.8 | 8,155.3 |
| <u>Long-Term Debt</u> | | |
| 24 Electric System Bonds | 24,002.7 | 0.0 |
| 25 Equity in Electric System | 61,800.4 | 61,207.5 |
| 26 TOTAL LIABILITIES AND EQUITY | \$94,222.9 | \$69,362.8 |

**BRISTOL TENNESSEE ELECTRIC SYSTEM
STATEMENT OF INCOME AND EXPENSES
ELECTRIC BUSINESS UNIT**

October 2005

\$(000)

| LINE NO. | October 2005 | ACTUAL YTD | BUDGET YTD | FY 2005 ACTUAL YTD | FY 2006 BUDGET |
|---|-----------------|---------------|---------------|--------------------------|-------------------|
| Operating Revenue | | | | | |
| 1 Electric Sales | \$4,603.3 | \$19,937.2 | \$17,622.2 | \$17,287.6 | \$57,571.3 |
| 2 Other Electric Revenue | 281.5 | 817.3 | 785.9 | 736.5 | 2,626.9 |
| 3 Total Operating Revenue | 4,884.8 | 20,754.5 | 18,408.1 | 18,024.1 | 60,198.2 |
| Operating Expense | | | | | |
| 4 Transmission & Distribution | 37.6 | 158.6 | 238.9 | 143.3 | 677.0 |
| 5 Customer Accounts Expense | 81.6 | 295.6 | 298.8 | 273.2 | 946.2 |
| 6 Customer Service Expense | 12.1 | 71.6 | 131.1 | 91.8 | 368.5 |
| 7 Administrative & General | 78.6 | 336.6 | 338.2 | 295.0 | 1,000.1 |
| 8 Maintenance Expense | 209.7 | 820.5 | 875.4 | 810.1 | 2,669.3 |
| 9 Total Operating & Maintenance | 419.6 | 1,682.9 | 1,882.4 | 1,613.4 | 5,661.1 |
| 10 Purchased Power | 4,009.9 | 17,456.3 | 15,432.6 | 14,880.0 | 50,621.1 |
| Other Operating Expense | | | | | |
| 11 Depreciation Expense | 162.8 | 650.3 | 730.6 | 644.2 | 2,246.6 |
| 12 Taxes & Tax Equivalents | 113.4 | 816.4 | 481.6 | 384.6 | 1,443.2 |
| 13 Total Other Operating Expense | 276.2 | 1,466.7 | 1,212.2 | 1,028.8 | 3,689.8 |
| 14 Total Operating Expense | 4,705.7 | 20,605.9 | 18,527.2 | 17,522.2 | 59,972.0 |
| Income | | | | | |
| 15 Operating Income | 179.0 | 148.6 | (119.1) | 501.9 | 226.2 |
| 16 Other Income | 171.7 | 460.8 | 188.8 | 100.0 | 722.4 |
| 17 Interest from DEU | 28.5 | 115.7 | 115.8 | 128.2 | 334.5 |
| 18 Net Income Before Debt Expense | 379.2 | 725.1 | 185.5 | 730.1 | 1,283.1 |
| Debt Expense | | | | | |
| 19 Interest on Long-Term Debt (Deposits | 1.3 | 4.5 | 4.8 | 2.5 | 14.4 |
| 20 Interest on LT Debt-Bonds | 25.9 | 127.6 | 340.4 | | 1,021.2 |
| 20 NET INCOME | \$352.0 | \$593.0 | (\$159.7) | \$727.6 | \$247.5 |

BRISTOL TENNESSEE ESSENTIAL SERVICES

STATISTICAL DATA

ELECTRIC BUSINESS UNIT

October 2005

Electric Sales

| LINE | No. | KWH | KWH/ | | Cents/ |
|----------------------|--------|--------|--------|-------------|--------|
| No. Class | Cust. | (000) | Cust. | Revenue | KWH |
| 1 Residential | 27,861 | 29,324 | 1,053 | \$1,911,550 | 6.52 |
| 2 Small Ltg. & Power | 3,431 | 4,155 | 1,211 | 328,277 | 7.90 |
| 3 Large Ltg. & Power | 621 | 37,268 | 60,013 | 2,281,903 | 6.12 |
| 4 Street & ODL | 199 | 836 | | 81,610 | 9.76 |
| 5 Total 10/31/05 | 32,112 | 71,583 | | \$4,603,339 | 6.43 |
| 6 Total 10/31/04 | 30,103 | 65,479 | | \$3,632,362 | 5.55 |

FY to Date - (4 Months)

| | | | | | |
|----------------------|---------|---------|--------|--------------|------|
| 7 Residential | 111,553 | 141,313 | 1,267 | \$8,679,425 | 6.14 |
| 8 Small Ltg. & Power | 13,757 | 19,386 | 1,409 | 1,431,371 | 7.38 |
| 9 Large Ltg. & Power | 2,476 | 159,463 | 64,403 | 9,508,358 | 5.96 |
| 10 Street & ODL | 793 | 3,284 | | 318,076 | 9.69 |
| 11 Total FY 2006 | 128,579 | 323,446 | | \$19,937,230 | 6.16 |
| 12 Total FY 2005 | 127,241 | 305,068 | | \$17,287,634 | 5.67 |

Power Purchases

| | KWH | | Cents/ |
|-----------------|---------|--------------|--------|
| | (000) | Cost | KWH |
| 13 October 2005 | 74,804 | \$4,009,939 | 5.36 |
| 14 October 2004 | 68,425 | \$3,098,678 | 4.53 |
| 15 YTD FY 2006 | 337,469 | \$17,456,262 | 5.17 |
| 16 YTD FY 2005 | 318,797 | \$14,679,853 | 4.67 |

Weather Data

| | Normal FY | | Current Month | | Previous FY | |
|-----------------|-----------|-----|---------------|-----|-------------|-----|
| | October | YTD | 10-05 | YTD | 10-04 | YTD |
| 17 DD - Heating | 204 | 204 | 155 | 155 | 138 | 138 |
| 18 DD - Cooling | 34 | 771 | 30 | 922 | 2 | 597 |

Miscellaneous Consumer Data

| | 10/31/05 | 06/30/05 | FY Increase |
|--------------------------------|----------|----------|-------------|
| 19 No. Conservation Loan | 7999 | 7960 | 39 |
| 20 Load Management/Storage W/H | 13592 | 13380 | 212 |

31) Please explain in detail how BTES' Comprehensive Annual Financial Reports will present the financial result for its cable television, Internet and telephone divisions, including will separate balance sheets, income and cash flow statements be presented for each division?

RESPONSE: BTES's Comprehensive Annual Reports will include a separate balance sheet, income statement and cash flow statement for each business unit, as well as combined financial statements.

32) What is the projected additional amount of revenues that the increase in BTES' electric rates, effective October 1, 2005, will generate during the period October 1, 2005 to September 30, 2006?

RESPONSE: \$3,942,000.00

33) What is the projected additional cost to BTES of the increase in Tennessee Valley Authority wholesale electric rates to BTES for the period October 1, 2005 to September 30, 2006?

RESPONSE: \$3,965,000.00

34) Please provide pro forma financial statements for BTES' cable television and Internet divisions in a form similar to that provided in Exhibit D to BTES' Application.

RESPONSE: BTES objects to this question on the grounds that the requested information about BTES's proposed Internet and cable television service is neither relevant nor likely to lead to the discovery of relevant information. The issues in this proceeding concern BTES's proposed offering of telecommunications services, not Internet or cable television services.

Without waiving this objection, BTES has provided UTSE with a copy of the business plan for Internet and cable television filed with the Comptroller. See Response to Question 1. The only other document known to be responsive to this request is the 2005/2006 BTES business plan, a copy of which is being provided.

BTES Business Plan

July 1, 2005 - June 30, 2006

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Introduction

This is the **Business Plan for Bristol Tennessee Essential Services** with strategic quality initiatives for fiscal year 2006. The plan contains our major objectives and general strategies for the year including the integration of total quality management objectives. It also includes a five-year financial forecast which will be updated annually with the realization that our business can have wide variations because of customer requirements and the fact that we are a weather-driven organization. Storms and temperature play a major role in our financial performance.

A BTES System Study is made biannually that incorporates the near-term and long-term major plant requirements. This is to ensure that BTES can meet the immediate customer requirements and that any additions made will fit into a long-term unified system.

RECAPING 2004 - 2005

During the past year, major engineering and construction projects included 12 spans, three-phase overhead line for Bristol West; seven spans, three-phase overhead line along Hamilton Road to serve Grande Harbor Subdivision; relocating four spans, three-phase at bridge located at Tri-Cities Regional Airport; seven spans, 69 kV tie line around Steele Creek Substation; and replacing underground feeder, circuit 384 from Shelby Street Substation.

We installed over 51,300 feet of underground primary conductors to serve the following new subdivisions: The Reserve, Grande Harbor I, Baker-Dry Branch Road, Avoca Condos and Grande Harbor II.

Approximately 70 miles of fiberoptic cable were installed, bringing the total to nearly 120 miles, to continue the interconnection of substations to the Power Service Center. Fiberoptic cable is lightning resistant, if not lightning proof. This, along with the reliability and speed of the fiberoptic cable, greatly enhances SCADA functionality to substations.

BTES received approval to offer cable television and high speed Internet service to customers. As a result, the name "Bristol Tennessee Electric System" was changed to "Bristol Tennessee Essential Services" to reflect these new lines of business.

Our outage time per customer was 81 minutes for calendar year 2004 which gives us a reliability index of 99.984.

During the last five years, we have been able to maintain our goal of a five-year tree clearance cycle. We continue to monitor frequency of tree-caused outages by areas and make more frequent visits to these areas. In 2004-2005, we cleared trees along feeder lines at Pemberton Substation circuits 214 and 224; Ruthton Substation circuits 234, 274 and 254; Shelby Substation circuits 284, 294, 234, 2014 and 236; and Scott Substation circuits 214, 224 and 254.

Our goal is to maintain the distribution transformer capacity ratio to 200 percent of peak demand or less. We continue to work to improve this number. We will continue our transformer loading program to help

us predict new customer demand needs. The transformer loading program will assist us in identifying transformers that we will investigate for being heavily loaded and change if necessary.

During our routine substation preventative maintenance program, we discovered potential problems and made repairs to battery problems at Bluff City District and Shelby Street Substations; regulator problems at Adams Chapel, Buffalo and Piney Flats Substations and SCADA issues at Bluff City Primary and Airport Substations.

We checked 247 three-phase meter installations which resulted in finding and correcting two meter inaccuracies. All other meter installation checks were found to be okay.

Fifty-four problems ranging from minor to critical were discovered and repaired during our annual infrared inspections.

For the first eleven months of fiscal year 2005, the value of stores inventory was \$565,827. Stores personnel continue to monitor inventory levels and look for ways to reduce the cost of inventory. They work closely with engineering and construction personnel to have material for major jobs on hand just in time for the start of construction.

As the city's largest taxpayer, we paid the maximum in-lieu-of-tax payments as provided by Tennessee State Law and the TVA Contract to the City of Bristol in the amount of \$722,292 for fiscal year 2005. Combined with taxes paid to Sullivan County, Bluff City and Washington County, Virginia, a grand total of \$934,405 was paid by BTES.

We planted 106 dogwoods during the first 10 months of fiscal year 2005 through our Trade-A-Tree program.

Installation of an electronic mapping system is currently in progress. We are using a Trimble Global Positioning System (GPS) to enter the geographic location of all power system features such as poles, transformers, meters and lines into the BTES mapping system. The mapping platform will operate as a Geographical Information System (GIS) that will link BTES customer and facility data to the geographical symbols on the maps. A base map consisting of roads and property parcels is being used along with aerial photographs of the BTES service area. After the field data has been collected on all of the power system facilities, the new electronic maps will replace the existing paper mapping system.

Our bad debts, as a percentage of retail revenue, averaged 0.201 percent for the first ten months of fiscal year 2005, which is well below our stated goal of 0.25 percent. The industry target is 0.4 percent. This has been accomplished in a variety of ways. We diligently work to prevent customers from falling too far behind in paying their electric bill. We thoroughly screen new applications to determine inclination to pay. In an effort to help those in need find necessary funding, we work with area churches, the Salvation Army, United Way, the Upper East Tennessee Human Development Authority and other customers via our *Help Your Neighbor* program. Our deposit procedure seems to be working well. Residential customers who demonstrate a history of paying their bills in a timely manner may have their deposit waived. A general power customer with a calculated standard deposit of \$10,000 or less which has a principal owner who has lived on our system five or more years with good pay and credit history and is willing to guarantee the account, may have the deposit reduced or waived. To date, no adverse effects have been detected.

We have been prepaying our power bill. Under this arrangement, we use an automated clearing house to send our money to TVA before actual payment is due. In return, we receive "interest" payments from TVA for the amount of their cost of short-term borrowing. This is used when TVA's rate is higher than we are able to receive through other investment vehicles.

In December 2002, we purchased \$8 million of Discounted Energy Units from TVA. Our participation in the program will assure a long-term supply of power at a low price and increase our return on investments. Over a ten year period, our power bill will be discounted by the principle and interest earned.

Efforts to increase sales of electricity continued. Efforts are ongoing to increase the use of heat pumps and electric water heaters, especially water heaters that can be switched off during peak-demand periods. During calendar year 2004, we inspected 173 heat pump installations and installed 722 water heaters. BTES has over 13,332 load-managed water heaters. During calendar year 2004, TVA paid us \$789,899 for the ability to cycle these water heaters off during peak times. More than 31 loans were made through the Energy Savings Loan Program at a total of \$122,743. Advertising, direct involvement with customers through our Homebuilders Association Spring Home Show, health fair booths, other events and communicating through our customer newsletter and electric bill messages continues to help add growth in these areas.

We continue to make subdivision development agreements available to developers. Instead of initially collecting the total cost for electric facilities installed to serve subdivisions, we offer to waive all or part of these costs for developers who agree to have all-electric homes with inspected heat pumps and load-managed water heaters built in their developments. Total costs are charged for any lots on which homes are built that are not all-electric. We presently have 749 lots in 31 subdivisions covered under this type agreement.

Our marketing programs are proving to be effective as the data shows on electric usage in new homes where natural gas is available:

| | Water Heater | | Heating System | |
|------|--------------|-------------|----------------|------------|
| | Gas | Electric | Gas | Electric |
| 1998 | 14 (25.9%) | 40 (74.1%) | 24 (42.1%) | 33 (57.9%) |
| 1999 | 23 (16.0%) | 121 (84.0%) | 42 (37.8%) | 69 (62.2%) |
| 2000 | 15 (19.7%) | 61 (80.3%) | 26 (34.2%) | 50 (65.8%) |
| 2001 | 3 (7.9%) | 35 (92.1%) | 3 (7.9%) | 35 (92.1%) |
| 2002 | 15 (20.3%) | 59 (79.7%) | 20 (25.3%) | 59 (74.7%) |
| 2003 | 3 (5.5%) | 52 (94.5%) | 5 (9.1%) | 50 (90.9%) |
| 2004 | 1 (1.9%) | 53 (98.1%) | 2 (3.72%) | 52 (96.3%) |

Each customer who purchases a BTES water heater or who has an inspected heat pump installed is surveyed by mail. The surveys are used to monitor quality and customer satisfaction of the program and satisfaction with BTES employees and Quality Contractor Network employees.

For the 14th consecutive year, in cooperation with the Bristol Chamber of Commerce, the City of Bristol, Tennessee and the State of Tennessee, we maintained the Governor's Three-Star Community Economic Preparedness Program Award which signifies that Bristol has the organization, attitude, facilities and skills to attract and retain industry. A major component of this certification is having available property for industrial development. The Bristol Industrial Park purchased by BTES provides this component.

In calendar year 2004, BTES personnel visited 81 existing industries to discuss electrical needs, expansion possibilities and their satisfaction with the service they are receiving. BTES worked with the City of Bristol, State of Tennessee, TVA and Sullivan County to identify and assist 18 businesses with expansions or relocations to the Bristol area, resulting in the potential for 416 new jobs.

Our *Help Your Neighbor* program was conducted successfully for the 13th year to assist residential electric customers in paying their winter electric bills during difficult times. During this past winter \$13,402 was contributed by customers and BTES' match, providing assistance for over 100 families. As in the past, the need of the customer is identified by the Salvation Army and funds are administered by the United Way.

Sixty-eight percent of our employees had perfect attendance for calendar year 2004.

For the 22nd consecutive year, we had no lost-time accidents with a total of over 2.9 million man-hours since the last lost-time accident in 1982. There were no known high voltage personal injuries involving BTES facilities.

During calendar year 2004, three full-time employees left BTES. This prompted organizational changes and the hiring of four new full-time employees and four part-time employees. We continued a co-op program for electrical engineering students.

We presented 37 awards at our heat pump dinner for Quality Contractor Network members.

At the annual Service Awards Banquet, we presented awards representing 229 years of service including: one employee for 35 years of service, two employees for 30 years of service, three employees for 25 years of service, one employee for 20 years of service, one employee for 15 years of service, one employee for 10 years of service and two employees for five years of service to BTES and four recognition awards for new employees.

LOOKING TO 2005-2006:

We will pay the maximum in-lieu-of-taxes as provided by Tennessee State Law and the TVA Contract which includes \$732,072 to the City of Bristol, Tennessee; \$212,977 to Sullivan County; \$1,136 to Bluff City; and \$381 to Washington County, Virginia for a grand total of \$946,566 for fiscal year 2006.

We will continue to monitor the competitive landscape enhanced by the possibility of deregulation in the purchase of wholesale power.

We will continue our *Help Your Neighbor* program.

We will provide retail wheeling and other contract services to TVA to supply electric service for certain customers in Bristol, Virginia and Washington County, Virginia.

During the coming year, major planned engineering and construction projects include: design and construction of Highway 75 transmission and distribution projects, design and construction of transmission and distribution project along Hwy 394 from BMS to Weaver Pike, design and construction of underground facilities for the Bristol Business Park and design and construction of transmission and distribution lines associated with Rockhold Substation.

Several upgrades and projects are planned to meet customer requests which include: The Reserve Development Phase II, 86 lots in Grande Harbor III, seven lots in Serenity Ridge, 43 units in Rogers Meadows Development, 50 lots in Deere Trace, Lowes and Food City developments along Volunteer Parkway, Raceday Center Development and campground facilities around BMS including Pole Position RVs, All American Campground, BMS RV and Nemecheck RV.

Planned substation projects include: Rockhold Substation, Vance Substation-bus redesign to allow relocation of one 10/12.5 MVA to replace the aging single-phase units at Ruthton Substation. In conjunction with this project, at Ruthton, a control house will be built and a 69kV breaker will be installed to replace the 69kV fuses.

We will continue to provide information to and gather information from our customers through internal, external and face-to-face contact to maintain their confidence in the efficiency, stability and integrity of BTES and to find areas for quality improvement to better serve their needs.

We will continue to assist industries in filling any available business or industrial space. Efforts will be made to help existing industries grow including coordinating the TVA Existing Industries Program with our industries and highlighting various existing businesses in our quarterly customer newsletter.

We will strive to hold our employee-per-customer ratio below 2.1 employees per 1,000 customers. We will review possible organizational changes as employees retire during this period.

We will continue to promote heat pumps, load-managed water heaters and *energy right*™ homes to increase our sales of electricity for efficient, cost-effective residential use.

We will promote cable television and Internet services to our customers in order to provide a financially viable fiber optic path to each home or business served, resulting in instant power outage reporting, improved time to restore power and reduction in customer minutes of power outages.

We will review meters and support equipment to read meters over the fiber optic system for houses served by fiber optic cable.

We will evaluate other uses of the fiber optic cable system, including load management, in an effort to enhance economic development and the quality of life for our customers.

We will evaluate offering a pre-payment service for customers who need a deposit but are unable to pay the money upfront.

We will review our banking relationships and look for a cash-management system which will increase our return on idle cash while maintaining the integrity of the laws of the State of Tennessee regarding safe-keeping of public funds.

Based on the above recap of fiscal year 2005 and the knowledge of our current status in all aspects of BTES, this plan contains our projections for fiscal year 2006 and describes the actions we intend to take to maximize the opportunity to achieve these projections.

Purpose of This Plan

We have three main purposes in mind in preparing this Business Plan:

1. The **preparation** of the plan has significant purposes. Preparation requires key individuals within BTES to break our business into its component parts and evaluate each of those parts including **implementation of total quality management techniques**. Both large issues and details are addressed and considered. This process results in a better understanding of our business, our objectives and our strategies.
2. A second purpose of the plan is its benefit as a **day-to-day working document**. This plan is used as a reference in decision making, in monitoring progress and as a reminder of the “who, what, why, when and how” that comprise the plan.
3. Finally, the plan is a **statement of objectives, strategies and quality strategies** to be submitted to the Board of Directors. This assures that the goals and objectives of those managing BTES on a day-to-day basis are consistent with those of the Board and, ultimately, our customers.

This plan will not be permitted to restrict flexibility or creativity of management in a changing business environment. New opportunities and unforeseen problems will undoubtedly cause modifications from the plan as we proceed through the year.

Our Vision

**To be the best electric,
Internet and cable television
provider.**

Our Mission

**To provide service to our
customers, employees and community
that exceeds their expectations.**

General Philosophy

■ ***Reliability For Our Customers Is Essential***

The customer is our reason for being and ultimately judges the quality of our service. We must provide safe, reliable, cost-effective service and properly allocate costs for BTES to survive, grow and meet the needs of our present and future customers.

■ ***BTES Employees Are Our Most Important Asset***

They provide the intelligence and determine the reputation of our organization. They are respected as valuable teamworkers striving to meet our goals of quality service. We are committed to providing a safe and healthy workplace for all BTES employees who are the driving force behind all we do.

■ ***Resources Must Be Wisely Allocated And Used***

Our resources (time, money, facilities and equipment) must be wisely allocated, utilized and invested to enable us to provide quality service at reasonable long-term rates.

■ ***Our Vendors And Suppliers Are Our Partners***

They provide goods and services that enable us to meet the needs of our customers. We will treat our vendors and suppliers with respect and create an environment which will ensure mutual success.

■ ***Increasing Sales Helps Keep Rates Down***

We are committed to increasing sales by developing additional load such as residential heat pumps, water heaters and industrial and commercial loads. This will help provide us a broader base to divide expenses which helps keep rates down.

■ ***Safety, Conservation And Efficient Use Of Electricity Are Essential***

We must provide a customer communication program through all area news media, school and civic programs, direct mail, in-house seminars, trade shows, etc., in order to educate and assist customers in the safety, conservation and efficient use of electricity.

■ ***Planning Is Vital To Achievement***

To achieve our objectives at BTES, it is necessary that we clearly understand our plans, objectives and strategies as we strive to maintain our excellence in service.

■ ***Continuous Improvement Is The Key To Long-Term Success***

We must continually strive for excellence and quality in everything we do - in our workmanship and services, the appearance and safety of our workplace, human relations and our commitment to our community and ourselves.

■ ***We Want To Earn And Deserve The Trust And Respect Of Our Customers***

The customer entrusts his family's welfare to us to provide his electrical power, cable television and Internet needs. He must have complete confidence in the quality service we provide and the people who work for us.

■ ***A Positive Image Is A Valuable Asset***

We strongly believe in a professional image and we will strive to maintain such an image in the eyes of our customers, vendors and business associates to improve the quality of life in our community.

Highlights 2004-2005

- Total operating revenues for fiscal year 2004 were \$56,957,745.
- Retail sales of electricity for fiscal year 2004 were 969,699 Megawatt-hours (MWh).
- The number of retail customers (meters) increased 155 bringing the total to 31,863 on December 31, 2004.
- The peak load for the year was set January 24, 2005 at 225,000 kilowatts at a temperature of 7°F versus the all-time system peak of 245,051 kilowatts set February 5, 1996 at -15°F.
- Operating expenses for fiscal year 2004 totaled \$56,098,449.
- Net income for fiscal year 2004 was \$1,480,980.
- The average annual residential use of electricity was 17,004 kilowatt-hours (kWh) at an average cost of 6.0 cents. The national residential average as of December 2003 at an average current cost of 8.6 cents is estimated at 10,745 kWh according to data compiled by the Energy Information Administration.
- In-lieu-of taxes for governmental subdivisions totaled \$905,455 during fiscal 2004.

About BTES

On June 30, 1945, the Tennessee Valley Authority (TVA) purchased the properties of East Tennessee Light and Power Company. Bristol Tennessee Electric System, now called Bristol Tennessee Essential Services, (BTES) was started July 1, 1945 as a result of a referendum in which the citizens of Bristol, Tennessee voted to purchase from TVA a portion of these properties. A \$1.3 million issue of Electric Light and Power bonds was required to finance the transaction. BTES immediately agreed to terms of a 20-year power contract for TVA to supply power which BTES distributed to the public at substantially lower rates.

As per Chapter 32 Public Acts of Tennessee 1935 and the contract with TVA, a five-member board of directors was established by the city to have general supervision and control of the municipally-owned electric system with one member serving from City Council. Current board members include Chairman Patrick W. Hickie, Jr., CPA, Vice-Chairman Bryan K. Boyd, Pereda R. "Pete" Paty, J. Scott MacMorran and City Council representative Dr. John S. Gaines.

Board meetings are held the third Wednesday of each month at noon at 2470 Volunteer Parkway.

The International Brotherhood of Electrical Workers (IBEW) has represented the trades and crafts employees since prior to TVA purchasing the system from East Tennessee Light and Power.

Sixty BTES employees serve over 32,000 customers in Bristol, Tennessee, Sullivan County and a portion of Washington County, Virginia (approximately 280 square miles of service area).

BTES purchases electric power from the Tennessee Valley Authority (TVA), the nation's largest public power generator of electricity. Our customers pay approximately 6.0 cents per kilowatt hour while the national average is 8.6 cents per kilowatt hour. BTES has had seven rate reductions since June 1982 with the most recent in October 1997. This does not include changes in wholesale power costs from TVA. In October 2003, TVA added an environmental charge to their rate to cover the cost of certain air pollution equipment. This effectively raised the rates on residential customers by 6% and small general power customers by 7%.

BTES is the City's largest taxpayer through its in-lieu-of-tax payments. The fiscal year 2005 in-lieu-of-tax payments by BTES include \$722,292 to the City of Bristol, Tennessee; \$209,698 to Sullivan County; \$1,811 to Bluff City; and \$604 to Washington County, Virginia for a grand total of \$934,405.

The electricity we purchase from TVA is delivered at 161,000 volts to our two delivery points- Bluff City Primary and Blountville Primary Substations. We step it down to 69,000 volts for subtransmission to other substations and to 13,200/7620 volts for distribution. In some cases, small distribution substations provide additional voltage reduction to large general power loads. The voltage entering a customer's home is 120/240 volts which is utilized for lighting, heating and operating household appliances. Businesses and industries may be served at 208/120, 480/277, 4160/2400 volts or other standard voltages.

In 1994, BTES received the American Public Power Association's prestigious E. F. Scattergood System Achievement Award for outstanding achievement by a utility.

Also in 1994, BTES was one of three organizations to receive the Tennessee Quality Governor's Award, now called the Tennessee Center for Performance Excellence Award of Excellence, presented to us by Governor Ned McWherter. The other two recipients were Nissan and FedEx. Other organizations that have received this prestigious award include: Eastman Chemical Company, Philips Consumer Electronics Company, Bridgestone/Firestone Company, Eaton Corporation, Methodist Medical Center of Oak Ridge, Baptist Health Systems of Knoxville, Fleetguard, Incorporated, Caterpillar Financial Services and Memphis Light, Gas and Water.

In June 1996, BTES received the American Public Power Association's Golden Tree Award in recognition of BTES planting over one tree per customer

In June 1997, BTES received the American Public Power Association's Community Service Award for outstanding civic and community involvement by our employees.

In October 1997, General Manager R. Michael Browder received the 1997 Jim Spradley Award for individual accomplishments in the field of industrial and economic development in Tennessee that go above and beyond the requirements of the vocation for which they are compensated. The award was presented by Governor Don Sundquist at the Governor's Economic Summit in Nashville.

In May 2000, General Manager R. Michael Browder received the Tennessee Valley Public Power Association's Distinguished Service Award for his exceptional performance and contributions toward the accomplishment of the organization's goals.

In June 2002, General Manager R. Michael Browder completed his year as Chairman of the Board of the American Public Power Association.

For fiscal year 2004, we received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the seventh year in a row.

In 2004, BTES received approval to offer cable television and Internet services.

On December 15, 2005, the BTES Board of Directors changed the name of the organization from "Bristol Tennessee Electric System" to "Bristol Tennessee Essential Services" to reflect the new services being offered.

In February 2005, BTES received the National Arbor Day Foundation Tree Line USA Award for the sixth year in a row in recognition of quality tree care, annual worker training, tree planting and public education.

STATISTICS - APRIL 2005

Bristol Tennessee Essential Services

2470 Volunteer Parkway, Bristol, TN 37620

P. O. Box 549, Bristol, TN 37621

Telephone: 423-968-1526

FAX Number: 423-793-5545

Power Outage Number: 423-968-BTES (968-2837)

Total Full-Time Employees 60

Part-Time Employees* (students, etc.) 4

*Additional students are utilized in the summer and during school breaks.

Miles of Line 1,226

Miles of Fiber Optic Cable 69.8

NUMBER OF CUSTOMERS

Large General Power (>50 kw) 619

Small General Power (<50 kw) 3,421

Residential 27,777

Street and Outdoor Lighting 198

Total 31,015

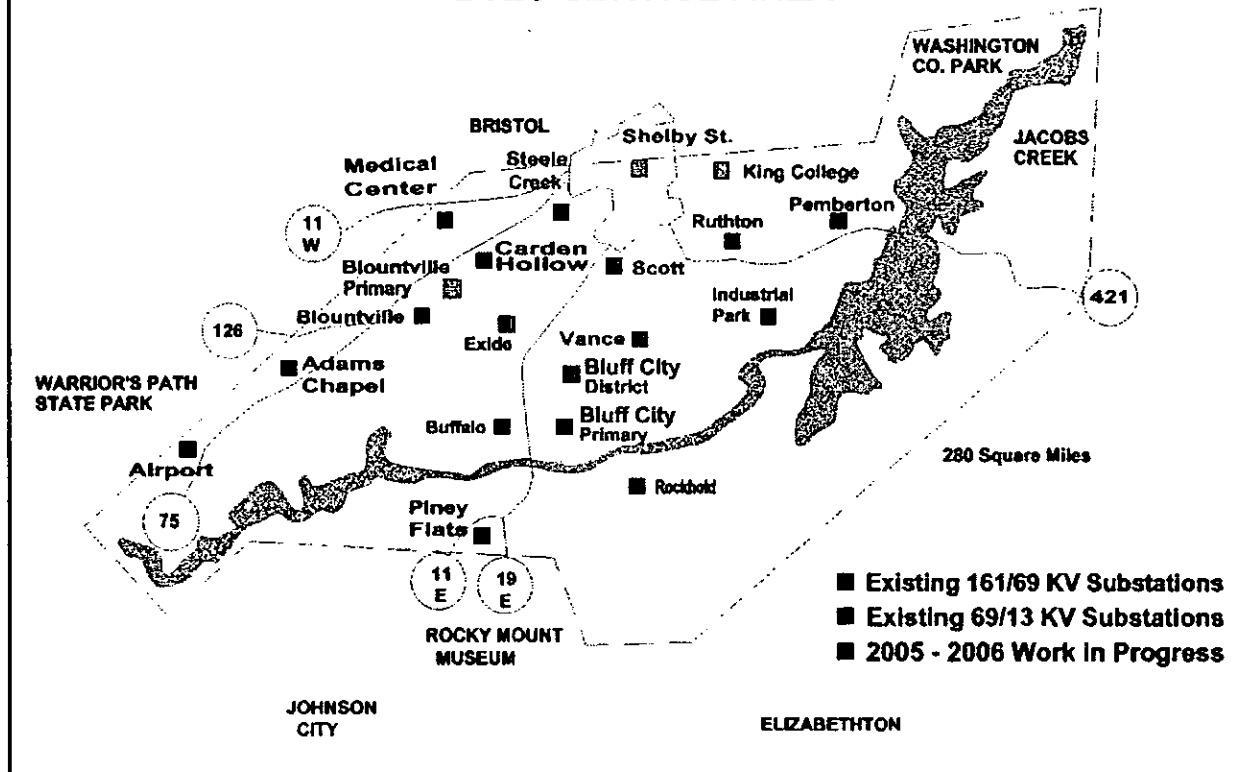
Employees/1000 Customers 1.9

LARGEST CUSTOMERS (in order of KWH usage)

- | | |
|---------------------------------|---------------------------|
| 1. Exide Corporation | 7. Amerace Corporation |
| 2. City of Bristol, Tennessee | 8. Royal Mouldings, Ltd.. |
| 3. GlaxoSmithKline Laboratories | 9. Seaman Corporation |
| 4. Modern Forge of Tennessee | 10. Bristol Metals, Inc. |
| 5. Wellmont BRMC | 11. HSN Fulfillment LLC |
| 6. King Pharmaceuticals | 12. King College |

Note: Bristol Motor Speedway has the third largest peak kw demand of any customer during the August race.

BTES SERVICE AREA



Substations Owned and Operated by BTES

| | | |
|---------------------|------------|---------|
| Bluff City Primary | *161/69 KV | 200 MVA |
| Blountville Primary | *161/69 KV | 200 MVA |
| Adams Chapel | 69/13 KV | 20 MVA |
| Airport | 69/13 KV | 20 MVA |
| Blountville | 69/13 KV | 25 MVA |
| Bluff City | 69/13 KV | 50 MVA |
| Buffalo | 69/13 KV | 20 MVA |
| Carden Hollow | 69/13 KV | 20 MVA |
| Exide | 69/13 KV | 40 MVA |
| Industrial Park | 69/13 KV | 20 MVA |
| King College | 69/13 KV | 20 MVA |
| Medical Center | 69/13 KV | 20 MVA |
| Pemberton | 69/13 KV | 20 MVA |
| Piney Flats | 69/13 KV | 20 MVA |
| Scott | 69/13 KV | 20 MVA |
| Shelby Street | 69/13 KV | 80 MVA |
| Steele Creek | 69/13 KV | 20 MVA |
| Ruthton | 69/13 KV | 10 MVA |
| Vance | 69/13 KV | 25 MVA |

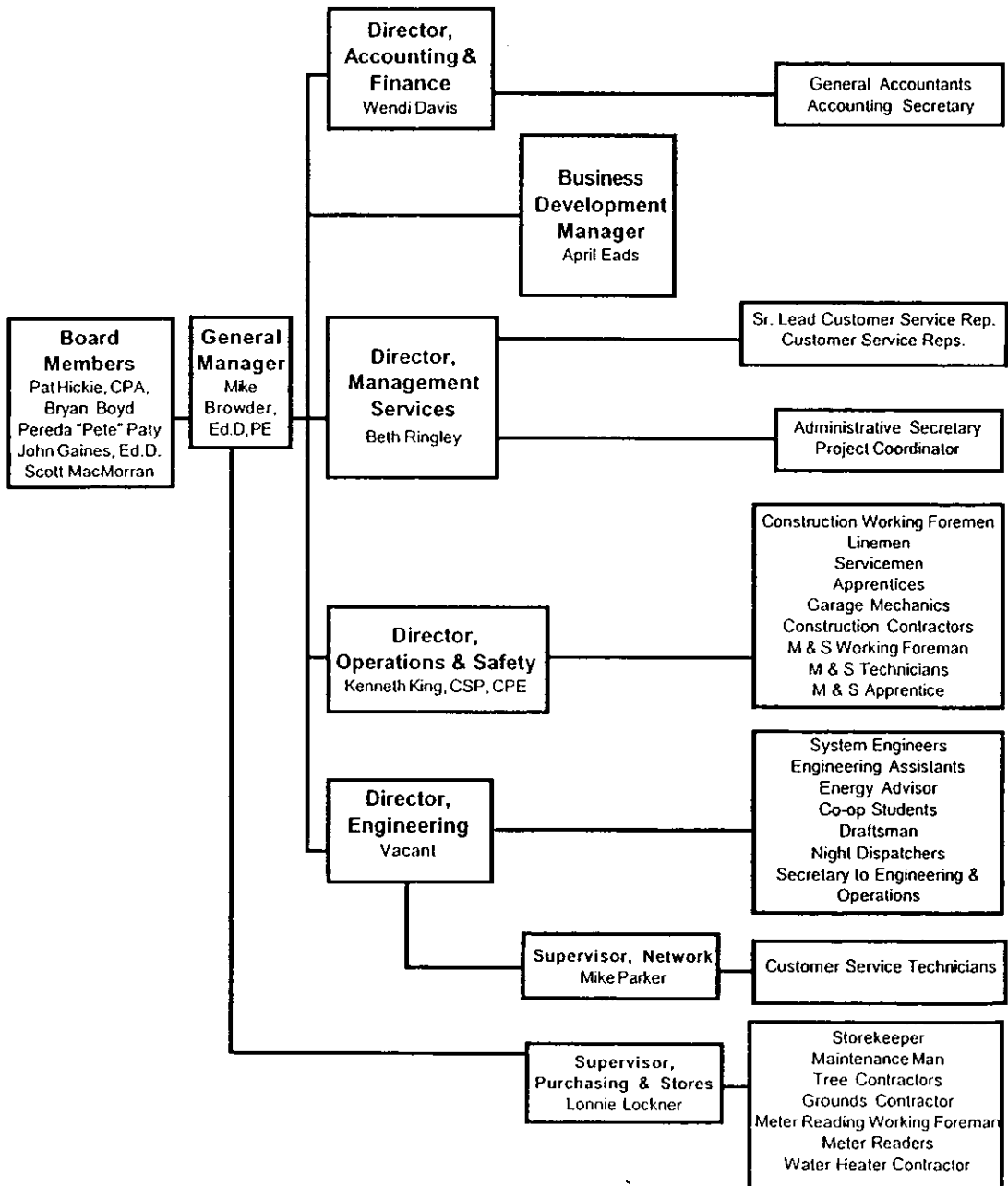
*Delivery Point from TVA

Substations in the 2005-2006 Work Plan

| | | |
|----------|----------|--------|
| Rockhold | 69/13 KV | 20 MVA |
|----------|----------|--------|

People

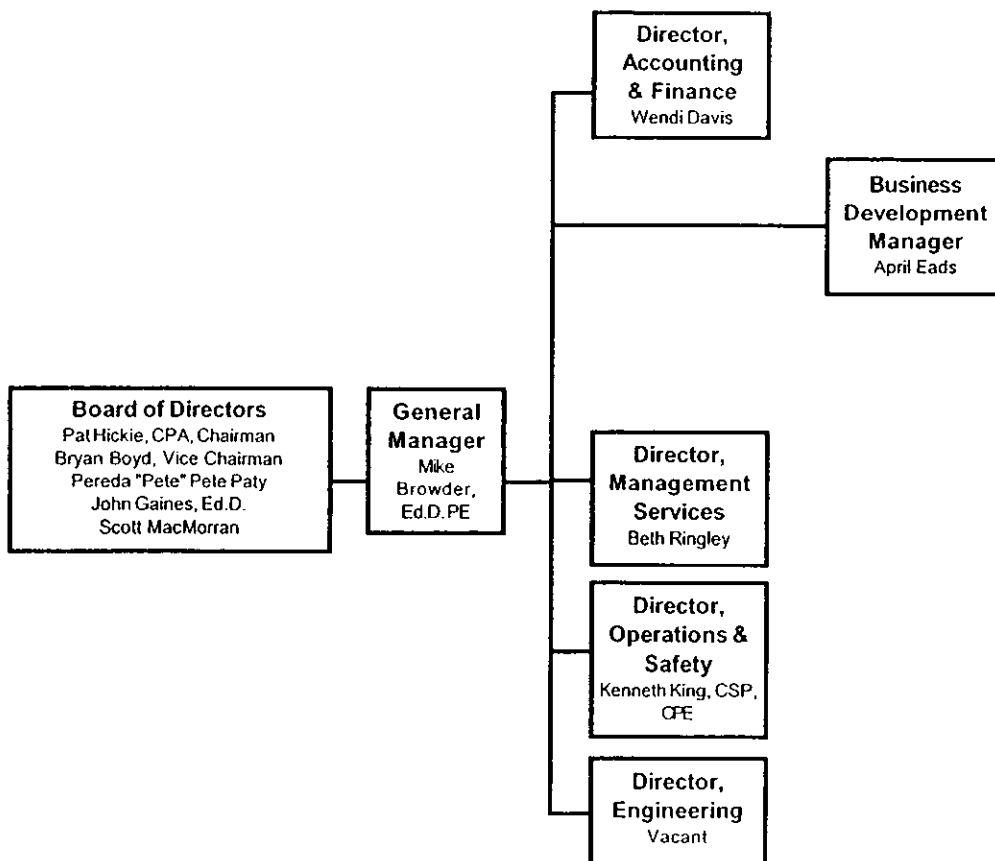
Organization Chart



People

A functional organization chart is shown below. Departmental organization charts follow for **accounting and finance, management services, engineering and operations and safety.**

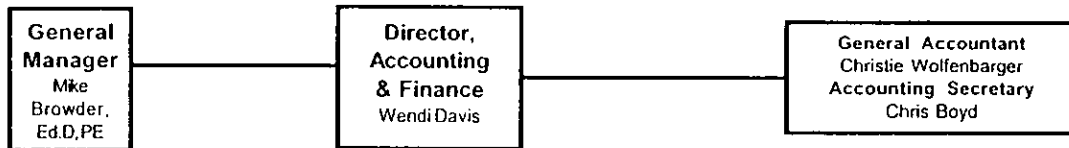
The **Business Development Manager** is responsible for working with industry to help coordinate services of our engineering and operations and safety areas and the Tennessee Valley Authority's Existing Industries Program to ensure BTES is providing the electric energy services needed, to detect any problems that BTES or TVA might assist in solving and to identify and contact new and existing industry prospects.



People

Accounting and Finance

The **Accounting and Finance Department** is responsible for the development of accounting and financial control policies and auditing functions; the maintenance of all official accounting records including ledgers, payment of invoices, payroll, preparation of financial statements, reports and budgets; management of financial resources and other functions related to general accounting; and administration of the *Help Your Neighbor* program.



People

Management Services

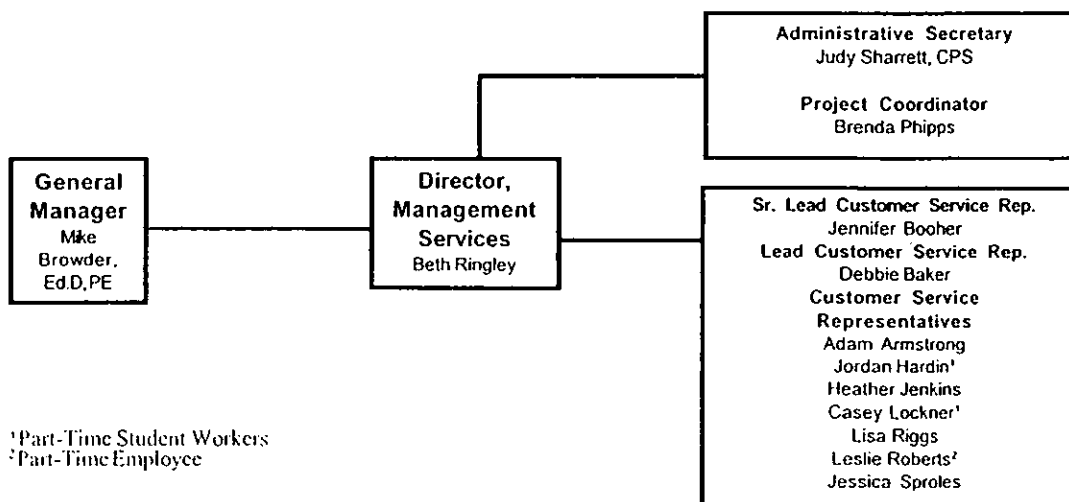
The **Management Services Department** covers functions of the business which affect all departments. These include human resources, benefits/employee relations, customer/public relations and secretary to the Board of Directors.

Human Resources includes recruitment, orientation, training, performance appraisals, job descriptions, personnel records, wage and salary administration, organizational restructuring, IBEW research for negotiations, affirmative action, etc.

Benefits/Employee Relations include employee handbook, monthly *Telowatt* newsletter, picnics, Christmas parties, service awards recognition banquets, health program, educational programs, retirement, etc.

Customer/Public Relations include customer handbook, quarterly *BTES News*, advertising programs, home shows, heat pump contractor dinners, heat pump and water heater promotions, electric bill messages, educational safety programs for schools and civic groups in addition to guidance and assistance to the General Manager in the formulation of objectives and policies for all aspects of our business.

Customer Service is responsible for the establishment of new service, deposits, handling of customer questions and problems, dispatching, credit, collection and maintenance and control of customer account records.



*Part-Time Student Workers
*Part-Time Employee

People

Operations & Safety

Operations and Safety is responsible for Construction, Transportation, Meters and Substations, Construction Contractors and the BTES Safety Program for all employees and facilities, in compliance with the Occupational Safety and Health Act, the Tennessee Occupational Safety and Health Act and Federal, State, County and City laws.

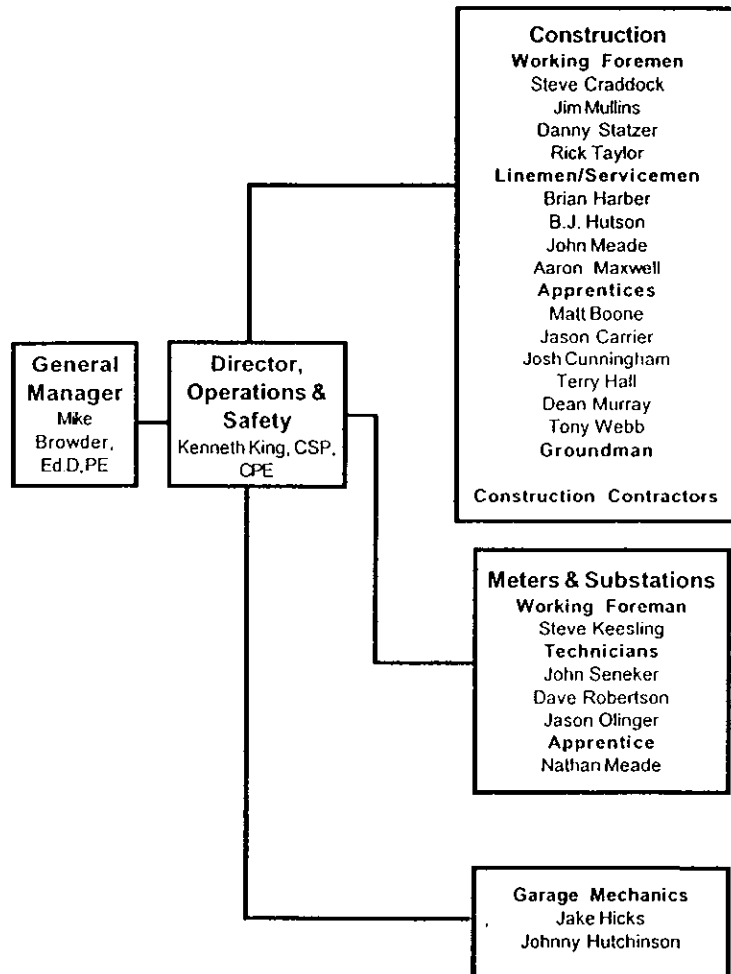
Construction performs all phases of transmission and distribution construction and maintenance for new, existing and future electric facilities from substations to street lights. All of these employees have completed or are in the process of completing a 4-1/2 year on-the-job Apprentice-Lineman Program. They are trained to perform all construction and maintenance jobs in all types of weather.

Transportation maintains and repairs all moving equipment used by BTES including hydraulic systems on derrick and bucket trucks, purchase of supplies and parts and assistance in the maintenance of the garage building.

Meters and Substations performs all metering, substation and fiber optic communication system operating and maintenance functions. This includes maintenance of breakers, transformers, regulators, relays, batteries, metering, traffic controls and Supervisory Control and Data Acquisition (SCADA). They perform underground locating and fault detection, test and maintain meters, assist with investigation of electric current diversion, customer voltage problems and high energy consumption. Employees in this area have completed or are in the process of completing a 4-1/2 year on-the-job Apprentice-Meter and Substation Technician Program.

(over)

Operations & Safety

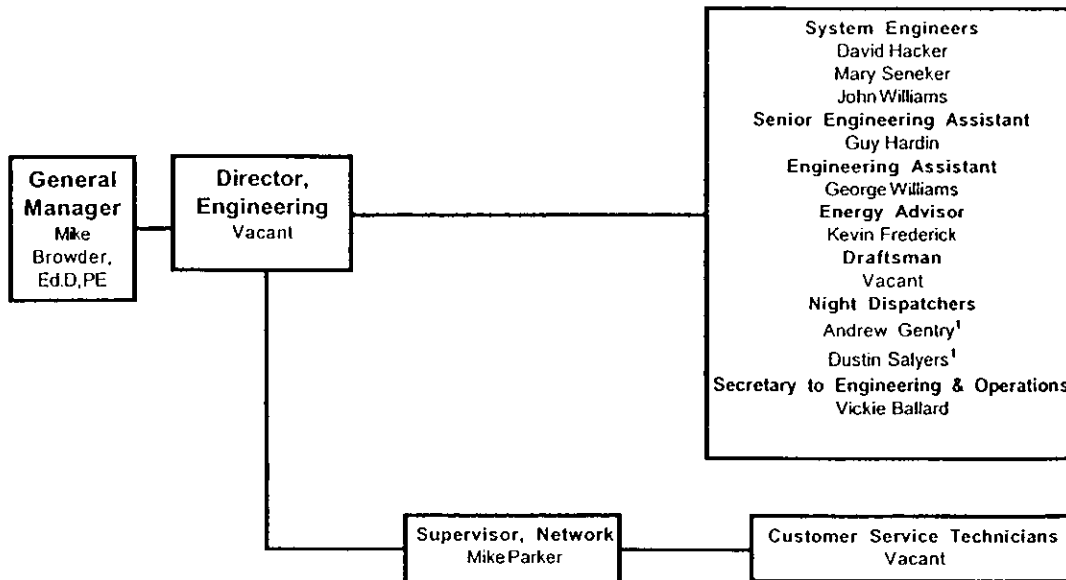


People

Engineering

Engineering performs all phases of engineering, planning, construction and maintenance of facilities required for present and future electrical loads and fiber communications; heat pump certification; street lights, dispatching, energy efficiency advising and certification functions, customer damage claims, radio/telephone, PORCHE and SCADA responsibilities. They design substations and the transmission and distribution system up to and including 161 kV facilities. They plan, design and control the maps, records, computer and system studies; they investigate customer service requests and negotiate and secure right-of-way; assist customers in more efficient usage of electrical energy especially through the promotion of heat pumps and water heaters. Decisions made consider reliability, economics and quality customer service.

The department is presently engineering and designing a fiber optic system to provide communications and data transfer between BTES facilities.



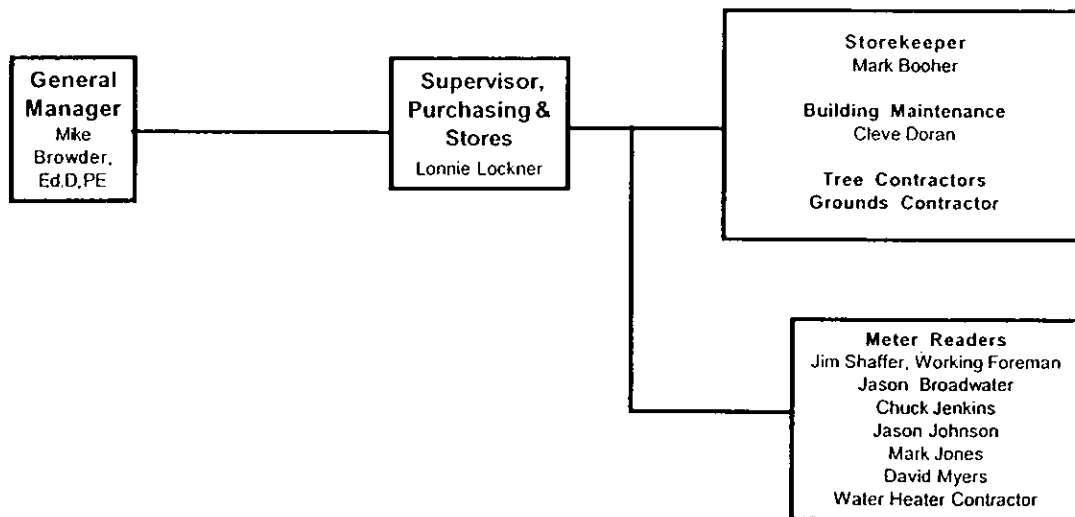
¹ Part-time

People

Purchases & Stores

Purchases & Stores is responsible for the purchase, receipt, issuance, record keeping and proper storage of all materials and supplies; disposal of obsolete and scrap materials; housekeeping, building maintenance and janitorial duties; keeping right-of-ways trimmed; and maintenance of all BTES grounds.

Meter Reading is responsible for accurate meter readings for over 32,000 customers each month, effective meter tampering control, reports of abnormal conditions, meter turn-ons and turn-offs, collections and timely response to customer load management trouble calls; load management switch quality checks and water heater installations.



Goals, Objectives & Strategies

I. DELIVER SAFE, RELIABLE, COST-EFFECTIVE ELECTRIC, CABLE TELEVISION AND INTERNET SERVICE TO OUR RATEPAYERS.

Our long- and short-range plans are designed, reviewed and modified to respond to changing customer and service area requirements while optimizing existing system capabilities and maintaining service reliability.

Objectives

- A. Operate and maintain the electric system in a manner that the average outage time per customer is less than one hour per year.
- B. Provide service to any present or future customer in accordance with the requirements and policies established by the current BTES Service Rules and Regulations.
- C. Maintain plans, programs, design standards and operating procedures that meet or exceed requirements for public safety and BTES service reliability - while minimizing the total owning cost of facilities including operating and maintenance costs.
- D. Maintain construction equipment and employee training programs that provide the flexibility to shift emphasis without loss of productivity from customer-generated work to service restoration following storms or to plan system construction projects.
- E. Be a good corporate citizen.

Strategies

- 1. Maintain distribution **tree trimming** on a **five-year cycle** with an average annual expense increase not to exceed the rate of inflation.
 - (a) Contract with Asplundh Tree Experts for tree trimming.
 - (b) Maintain service area map showing progress toward five-year plan.
- 2. Utilize and maintain **PORCHE system which integrates with the customer data base** to enable BTES to increase the level of customer service and give us the ability to handle a greater volume of customer calls.

3. **Install and maintain an electronic mapping system**, by taking a Global Positioning System (GPS) reading on every BTES facility, to enable BTES to utilize a Geographical Information System (GIS) to link field and customer data to our maps which will streamline the process of gathering data used for making customer and engineering decisions.
4. **Automate system records** and functions such as outage record and statistical analysis, substation preventative maintenance program, transformer loading program, etc., for the most efficient scheduling of equipment renewal or replacement and for timely scheduling of line patrols to discover and correct problems which cause, or may cause, power outages.
 - (a) Utilizing automated system outage records allows BTES to analyze the reasons for outages and target areas in which we can improve.
 - (b) The transformer loading program to identify transformers that we will investigate for being overloaded and change if necessary.
5. **Maintain the distribution transformer capacity ratio to 200 percent of peak demand or less.** This is achieved by using our transformer loading program which helps us predict new customer demand needs.
6. **Sponsor employee safety meetings, conduct employee information and training sessions, sponsor employee attendance at conferences, schools, seminars, etc., that furthers employee knowledge and training. Encourage and sponsor employees to continue their education.**
7. **Maintain equipment replacement and preventative maintenance program** to optimize the availability of construction equipment and to maximize the productivity of our work force.
8. **Participate in business, community and civic activities** so vital to the growth and quality of life in our community - such as United Way, Salvation Army and other agencies, Paramount Foundation, Chamber of Commerce, Rotary, Tree City USA Board, etc.
9. **Participate as a member of the Tennessee One Call System** so that we can respond to requests to locate underground power cables to provide a safer environment for underground excavations. During calendar year 2004, we received 3,780 locate requests in the BTES service area.
10. **Install Fiber Optic System** to improve reliable communications of SCADA information and control between service center and all BTES substations.

Quality Strategies

1. Track outage information to identify areas to be addressed by Quality Teams.

II. MAINTAIN FINANCIAL STRENGTH AND INTEGRITY WHILE EFFECTIVELY UTILIZING FINANCIAL RESOURCES TO CONTRIBUTE TO EFFICIENT OPERATION.

BTES' financial planning, processes and controls are designed to provide for the availability and effective management of financial resources while adequately protecting these resources from potential losses.

Objectives

- A. Provide budget and accounting processes that will support effective planning and control of resources, appropriate protection of assets and timely collection of receivables in compliance with industry standards and legal requirements.
- B. Assure adequate working capital components are available to meet all operating and legal requirements.
- C. Obtain maximum return available on investment or use of financial resources in accordance with legal limitations and prudent practice.
- D. Maintain a financial position to get an excellent rating for electric revenue bonds.
- E. Pay the maximum allowable in-lieu-of-tax payments to the cities and jurisdictions served by BTES.
- F. Maintain our Accounting records within GAAP, FERC, TVA and State of Tennessee Division of Municipal Audit Guidelines to ensure fair presentation of financial records.

Strategies

- 1. **Perform and analyze comparisons with peer utilities** to evaluate and develop cost containment programs. These comparisons have resulted in the installation of fiberglass reinforced polymer transmission poles versus concrete poles versus wood poles, etc.
- 2. **Continue to improve collection procedures** in an effort to shorten collection of receivables and **to contain bad debt losses to not more than 0.25 percent of retail revenues** by the deposit and collection programs. As a result of these efforts, the bad debt losses to date are .201 percent of retail revenue.
- 3. **Contain value of stores inventory to an average of \$500,000 or less**, except for fiber optic and transmission equipment, by use of the work order system and continued scrutiny by stores personnel. During the first ten months of fiscal year 2005, stores inventory averaged \$475,866 per month excluding fiber optic and transmission equipment, to be used for projects in progress, valued at \$89,961.

4. **Maintain internal controls and internal audit programs** at an appropriate level to eliminate any continuing loss of funds or other assets, and **to contain inventory losses at 0.2 percent or less. Currently they are at less than 0.1 percent.**
5. **Maintain insurance in force to protect from catastrophe** while attempting to **contain insurance costs to not more than 0.75 percent of retail revenues.** These costs are currently less than 0.65 percent.
6. Continue to look for the **best return on cash investments while maintaining safety** through precautionary collateralization of all funds through the Tennessee State Collateral Pool and by prepaying our power bill with TVA.
 - (a) Contact local banks on a daily basis to ensure competitive return for invested funds.
 - (b) Work with several local banks in an effort to secure a cash management program.
 - (c) Investigate other investment vehicles in order to maximize returns.
7. Continue to participate in TVA's **Discounted Energy Units** Program to ensure customers a reliable, low-cost power supply and provide a vehicle for distributors to better use operating cash and improve working capital liquidity.
8. Continue to work with TVA, our independent accounting firm and the State of Tennessee and continue our education/training pursuits **to ensure we are technically and ethically competent to fairly reflect our financial status.**

Quality Strategies

1. Gather, utilize and compare pertinent data from TVA, NRECA, APPA and other world class power companies to analyze rates, financial data and operating ratios.
3. Continue to utilize McNeary Consultants to ensure we have adequate insurance coverage at a competitive price.
4. Work with the State of Tennessee as a designated Drug-Free Workplace by the State.
5. Continue working with banks, TVA and investment specialists to ensure the best return on cash investments.

III. MAINTAIN RETAIL RATES THAT ARE FAIR, REASONABLE, NON-DISCRIMINATING AND CONSISTENT WITH SOUND BUSINESS PRACTICES, LONG-RANGE FINANCIAL GOALS AND COST OF SERVICE PHILOSOPHY.

Rates to our customers are based on the cost to serve, are competitive with alternative fuels in our community and are lower than most other electric rates in the nation. Our goal is to maintain or improve this position through minimal rate adjustments as required.

Objectives

- A. Continually analyze service costs versus fees collected to ensure recapture of costs.
- B. Treat all customers fairly, reasonably and consistently.
- C. Operate within a budget to keep operating costs under control.
- D. Ensure our system is adequately funded to maintain its physical soundness.
- E. Offer a competitive and reliable energy source within our service area.
- F. Ensure adequate supply of electricity at competitive rates.
- G. Offer cable television, Internet and other services to offset the cost of the fiber optic cable system.

Strategies

- 1. All of our customers are to be treated fairly. Continue to **monitor our service costs to ensure proper matching of fees**. Strive to properly allocate the burden of bearing service costs to the source of the costs.
- 2. **Continue cost-monitoring practices internally** to keep customer rates as low as possible while maintaining quality service.
- 3. Continue to **fund the depreciation reserve to offset costs of upgrading our system** in order to provide all customers safe and reliable service.
- 4. Continue to **install load management switches on customers' water heaters** to reduce TVA's peak demand while providing the customer with quality service.
 - (a) Advertise program in *BTES News*, radio, newspaper, etc., in an on-going effort to increase installations of water heaters.
 - (b) As of May 2005, have over 13,300 water heaters installed.

5. **Continue to work with TVA and TVPPA Rates and Contracts Committee** to encourage TVA to keep costs down and have competitive rates.
 - (a) General Manager Mike Browder is chairman of Rates and Contracts Committee.
 - (b) Rates and Contracts Committee is working on flexible contracts that can give us an opportunity to buy segments of our power from other sources at market rates.
 - (c) Also piloting a national accounts program so that BTES and TVA will be in a competitive position if and when retail wheeling becomes a reality.
6. **Continue to market heat pumps through the Quality Contractor Network.** Inspect them per TVA guidelines to ensure quality installation.
 - (a) Advertise program in *BTES News*, radio, newspaper, etc., in an on-going effort to increase installations of heat pumps.
 - (b) Pay heat pump contractors promptly.
 - (c) Offer advertising incentives to dealers for installation of heat pump.
 - (d) Recognize and reward contractors at Heat Pump Contractors Dinner.
7. **Analyze the trend toward deregulation** of the electric utility industry to determine our options.
 - (a) Attend industry association meetings to keep abreast of changes in the industry.
 - (b) Solicit input from industry consultants concerning deregulation.
8. **Continue to investigate other avenues of revenue generation.**
 - (a) Provide alternate 69 kV backup arrangements for use with other distributors.
 - (b) Wheel power for TVA.
 - (c) Investigate other opportunities in the telecommunications industry.
 - (d) Investigate the opportunities for distributed generation facilities.

Quality Strategies

1. Cost monitoring will include benchmarking with regional and world class power companies.

2. Survey all customers who purchase a water heater or have a heat pump inspected to ensure satisfaction, look for problem areas and search for ways to improve.
3. Continue our close partnership/working relationship with TVA to help and encourage them to control their costs, maintain their reliability and ensure adequate electricity supply. This will help ensure that we will have adequate, reliable, cost-competitive electric supply in a deregulated environment.

IV. MARKET BTES AND ITS PRODUCTS AND SERVICES WHILE MEETING CURRENT AND FUTURE CUSTOMER NEEDS.

Our customer services program and activities are designed and implemented to assist individual customers in making the most cost-effective use of energy resources and facilities to the long-term benefit of all of our customers.

Objectives

- A. Develop additional load such as residential heat pumps, water heaters and industrial/commercial load.
- B. Provide customers with assistance in making informed decisions on the selection and use of energy equipment and conservation materials, including financing of items such as insulation and storm windows and selling and leasing surge protection equipment and participating in TVA's Green Power Switch Program.
- C. Maintain marketing and load management strategies and programs which promote the installation of efficient end-use equipment to develop the lowest overall unit cost of electricity for all customers on a long-term basis.
- D. Play an active role in the economic growth and development of our service area in order to keep utility costs low, create new jobs and increase the local tax base, which in return benefits BTES customers.
- E. Maintain communication with existing local industries to develop loyalty and confidence in BTES by offering value-added services and continually addressing their electrical energy concerns.
- F. Develop the cable television and Internet services for BTES customers in order to make the installation of fiber optic cable to every home financially viable.

Strategies

- 1. **Install 600 residential water heaters** under the BTES Water Heater Program **during fiscal year 2006.**
- 2. **Install 350 heat pumps** under the BTES/TVA Heat Pump Program **during fiscal year 2006** and provide Energy Savings Loans and inspections for 60 customers.
- 3. **Sign up approximately 3,500 customers** to use BTES cable television and/or Internet services during fiscal year 2006.
- 4. **Promote the use of electrical energy to customers, builders, developers, architects, engineers, equipment dealers and others** involved in the decision-making process for electric heat pump systems, electric water heating systems and process equipment.

- (a) Participate in area home builders shows.
- (b) Work with contractors at open house functions promoting all-electric homes and BTES programs.
- (c) Provide cash incentives for building *energy right*™ homes.
- 5. **Promote *energy right*™ homes to customers, builders, developers, architects, engineers, real estate agents and others** involved in the decision-making process for new home construction.
- 6. **Identify and contact new and existing industry prospects and work with them in locating their facilities to our service area.** We have a certified economic developer on staff as business development manager.
- 7. **Assist new, existing and potential new customers to develop sales of electric energy.**
 - (a) Work with homeowners in building *energy right*™ homes by offering cash incentives to homeowners and developers.
 - (b) Through *BTES News*, educate customers as to cost of electricity in our area versus the rest of the nation.
- 8. **Have a net increase of four percent of load-managed water heaters during fiscal year 2006.**
- 9. **Provide heat pump inspection services to customers installing heat pumps** in order to certify proper installation and expedite dealer payments through the BTES/TVA Loan Program.
- 10. **Install a water heater within four days of a customer request.** Provide warranty replacements within 24 hours in emergency situations.
- 11. **Provide advertisement and customer communications to encourage and promote these programs.**
- 12. **Provide an optional Surge Protection Program** for our residential and business customers in order to ensure protection of their valuable electrical equipment.

Quality Strategies

- 1. Track and benchmark BTES results against regional and world class power companies.

2. Quality Teams to gather and trend data from water heater and heat pump customers to improve the system.
3. Gather and trend data on new home heating and cooling installations.
4. Evaluate customer electric bill surveys, quarterly newsletter comments, heat pump, web site comments and water heater surveys to identify areas for improvement and customer satisfaction.
5. Analyze, review and determine usefulness of a home page and web site on the internet by utilizing a cross-functional quality team approach.
 - (a) Have secured an Internet service provider.
 - (b) Have secured a domain name - BTES.net.
 - (c) Cross-functional team is active.
 - (d) Homepage is under construction.
6. Work with TVA to develop/refine energy service programs that constructively market electric consumption by focusing on both builders' and customers' desires and needs.

V. EFFECTIVELY UTILIZE BTES EMPLOYEES TO EFFICIENTLY SERVE BTES CUSTOMERS WITH A HIGH LEVEL OF RESPONSIVE SERVICE AND COMPENSATE THESE EMPLOYEES COMMENSURATE WITH THEIR CONTRIBUTION TO THESE OBJECTIVES.

BTES personnel policies and practices are designed and implemented to improve performance, continue to attract, develop and retain qualified staff, maintain fair employment practices and adequately compensate employees based upon their level of performance of service to BTES.

Objectives

- A. Maintain and improve employee productivity in meeting our service objectives by developing and training a highly competent staff and assuring technical and management continuity.
- B. Adopt and administer policies and practices which provide for open and positive employee/employer relations.
- C. Maintain a compensation and benefit package to attract and retain competent, highly productive people.
- D. Develop and maintain work practices which provide a productive and safe work environment.
- E. Continuously improve all aspects of our business.

Strategies

- 1. **Promote or recruit the best candidate** matching the job requirements for each open position.
 - (a) Work with area high schools, colleges and universities to provide resumes for open positions.
 - (b) BTES staff serves in advisory capacities to help ensure quality graduates for our company and community.
 - (c) Cross-train and develop employees internally for any available job openings.
- 2. **Identify needs and provide training and education to encourage employee development** and meet changing job responsibilities which provide technical and management continuity.

3. **Conduct and participate in periodic and valid compensation and benefit surveys** and initiate any actions necessary to assure our competitive standing is maintained for skills required within BTES' diverse job requirements.
4. **Maintain our 4-1/2 year apprentice program** to assure that BTES will have professionally trained competent people who can provide the needed services for construction, operation and maintenance of BTES' electrical transmission and distribution system. We have expanded a form of this apprentice program into customer accounting, meter reading and engineering areas.
5. **Maintain the excellent current position of a high number of customers served per employee.** The current BTES employee-per-1000-customer ratio is 1.9.
6. **Provide an organization structure which maximizes efficiency and productivity.**

Quality Strategies

1. Utilize the Quality Planning Committee to integrate the Business Plan with Tennessee Center for Performance Excellence and other quality initiatives.
2. Continue to train all employees in Quality Team processes to improve work functions and customer service.
 - (a) New employees are asked to participate on ongoing teams.
 - (b) In house classes and TVA Quality Alliance Training has been utilized for development of team and Quality process improvement.
3. Continue to evaluate performance appraisal system to ensure integration of ongoing quality processes.
4. Document quality training efforts to provide benchmarking and trend data.
5. Continue to work toward an environment where there is complete feedback (thoughts, suggestions, ideas) from employees on a daily basis. Also conduct a formal employee opinion survey periodically to verify the completeness and accuracy of communications. Utilize results and feedback to identify areas for improvement. Track and benchmark the results against regional and world class power companies.
6. Monitor our employment development process for meeting customer and organizational needs.
 - (a) We have a formal performance appraisal system that allows us to give and receive information about each employee.

- (b) Employees complete a Personal Assessment Form to identify their goals and how they may be more effectively utilized at BTES for current and future jobs.
- 7. Continue to work with schools and other organizations to recruit the best qualified candidates.

VI. CREATE AWARENESS OF OUR SERVICES THROUGH PROMOTION.

Our communications programs and activities are designed and implemented to achieve the understanding and support of customers, employees, elected officials and the financial community for BTES goals, policies, programs and energy issue concerns.

Objectives

- A. Provide accurate and useful information to increase awareness and understanding of our goals, policies and programs.
- B. Provide accurate and timely information on financial status and plans to customers, elected officials and the financial community which will maintain their confidence in the efficiency, stability and integrity of the organization.
- C. Provide accurate and specific information on energy, energy-related issues and impacts on BTES customers which will gain their understanding and support.
- D. Provide employees with specific and useful information to help them understand, communicate and successfully perform their assigned responsibilities and further BTES programs and goals.
- E. Keep current concerning issues affecting the electric utility industry and influence state and federal legislation that is in the best interest of our customers.

Strategies

- 1. **Provide accurate and timely information about our activities, programs, policies and plans through internal and external publications, contacts and other communications such as:**
 - (a) Employee Newsletter - The monthly *Telowatt*
 - (b) Employee Events - Picnics, Christmas parties, Service Awards Recognition
 - (c) Customer Newsletter - The quarterly *BTES News*
 - (d) Home Shows - Bristol Area Homebuilders Association Spring Home Show and Johnson City Area Homebuilders Association Spring Home Show in conjunction with other local power distributors and TVA.
 - (e) School Programs - Kindergarten and 3rd grades electrical safety demonstrations
 - (f) Community Events - Sprint Health Fair, Best of Tri-Cities Booth and Wellmont Bristol Regional Medical Center Health Fairs

- (g) Trade Shows - Industry Recruitment and Business Development Week
 - (h) Advertising - Newspapers, radio, television, billboard, school annuals, sporting event programs, pamphlets, lobby displays, heat pump tabloids, etc.
 - (i) Monthly customer electric bill messages.
2. Provide **accurate and timely handling of inquiries**. Surveys are sent to customers and all responses are reviewed by the General Manager.
 3. **Conduct research** to help review, monitor and assess the effectiveness of communication activities and their revisions.
 - (a) Water heater brochure developed in response to customer inquiries.
 - (b) Each issue of *BTES News* is reviewed by cross-functional team to ensure accuracy and effectiveness of contents.
 4. **Participate in the American Public Power Association, Tennessee Valley Public Power Association, Tennessee Municipal Electric Power Association, Fiber-to-the-Home Council, etc.,** by employee attendance at seminars, workshops, participation on committees, etc., for exchange of current information and programs in the electric utility and telecommunications industry to help influence decisions and provide better service to our customers.
 5. **Develop and maintain contacts and communications with business leaders, professionals and others** to remain informed and responsive to industrial growth and development prospects that might benefit the community.
 6. **Participate as a member of the Northeast Tennessee Technology Council** to monitor local initiatives to promote technology-related infrastructure in North East Tennessee and to assess area trends regarding technological needs.

Quality Strategies

1. Track and benchmark BTES results against regional and world class power companies.
 - (a) Continue to evaluate TVA distributor comparisons.
2. Gather customer feedback data from quarterly customer newsletter, web site and other sources.
3. Utilize feedback and other data to identify and prioritize areas for improvements in customer awareness.

Significant Issues Facing BTES

As laws and technology change, we are presented with opportunities and threats. We constantly monitor the electric utility industry and other related businesses so we can provide the best value for our customers and our community.

Currently, deregulation and surrounding issues are a major concern for BTES. BTES has brought in outside consultants to give presentations concerning deregulation. Employees have attended meetings and seminars to keep updated on the progress of deregulation to ensure that BTES is positioned to best service our customers in the new environment.

We continue to closely monitor retail competition in California which began on March 31, 1998. A major problem with deregulation is the removal of the "obligation to serve" from the equation. Electricity has become a necessity for life and industry. In a regulated environment, utilities bear an obligation to provide electricity in their designated service area. However, in a deregulated environment such as California, this obligation is absent for the generation owners. The large generating companies answer only to their stockholders, not to the public to whom they sell electricity. The results of this situation have been both immediate and severe. There currently is not a shortage of ability to generate electricity in California, only a shortage of generation available when needed. With the artificial shortage of available electricity for consumption, the cost is predictably inflated following the laws of supply and demand, and rotating blackouts are inevitable. In a regulated California, the wholesale electricity market was \$7 billion per year; in a deregulated California, the wholesale electricity market is over \$70 billion per year (2000-2001). We must continue serving the customers of BTES in a manner that looks out for their best interests, not the interests of large investor-owned power generators.

We are wheeling power for TVA to Strongwell Corporation in Bristol, VA.

We reached agreement with TVA to amend the provisions of the Power Contract relative to the term. The agreement provides that either TVA or BTES may terminate the Power Contract at any time upon not less than 5 years' prior written notice effective October 1, 2002. The stranded investment issue on past investment will be satisfied as of October 1, 2007.

Continue to work with APPA, TVPPA, TMEPA and local legislators to stay up to date and help influence favorable language for BTES within telecommunication legislation to ensure that BTES customers and potential customers receive world class service at reasonable prices.

We have a reciprocal agreement with Johnson City Power Board for 69 kV backup capacity in Piney Flats. We pay and receive over \$96,500 per year for this capability.

BTES Five-Year Financial Plan

INTRODUCTION

This five-year plan is a look forward to where we think we can be in five years along with the general strategies we feel are necessary to get there.

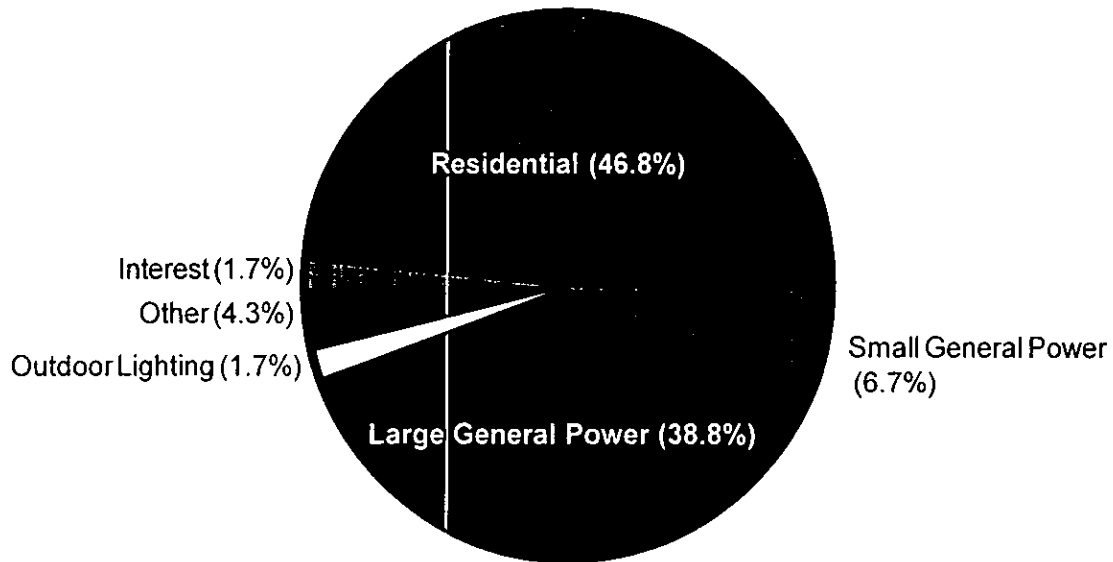
Realizing our limited control over the two main drivers of our industry, which are weather and customer requirements, we do not anticipate this forecast will be free from significant changes.

We have gathered past data and analyzed future expectations and trends in an effort to achieve some normalcy in projecting five years forward. These longer range general goals and strategies have been considered in the detailed plan for fiscal year 2005 to assure continuity of planning.

A new five-year plan will be included in each year's Fiscal Year Business Plan to update any changes in BTES or in BTES' objectives or strategies.

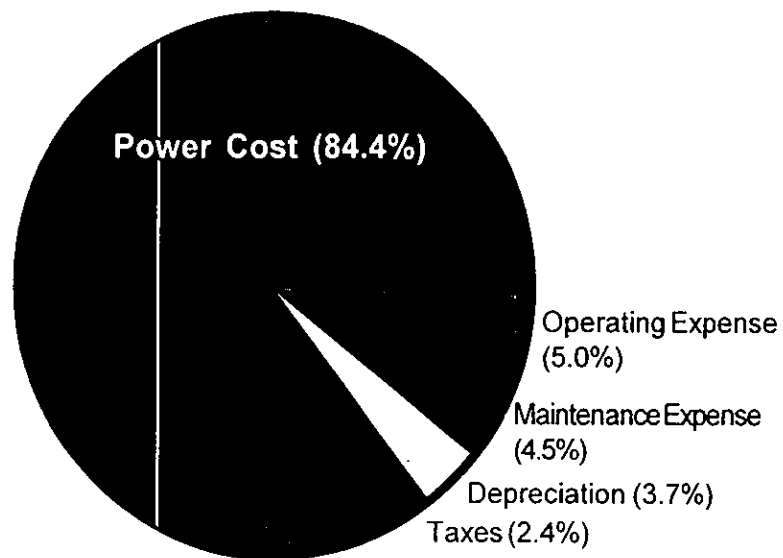
Where The Electric Money Comes From

Budget 2006



Where The Electric Money Goes

Budget 2006



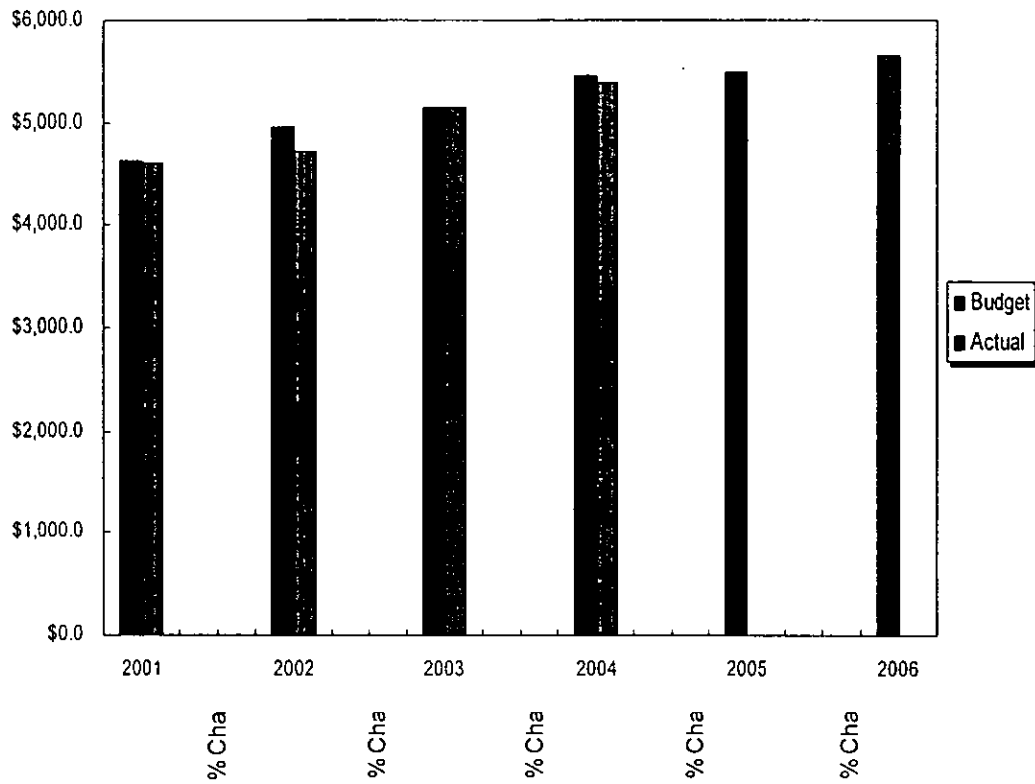
FIVE YEAR PROJECTED INCOME STATEMENT 2006-2010

| | (S'000'S) | Total | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|-----------|----------|----------|----------|----------|----------|------|
| OPERATING REVENUE | | | | | | | |
| Electric Sales | 299,602.3 | 57,571.1 | 58,722.5 | 59,897.0 | 61,094.9 | 62,316.8 | |
| Other Electric Revenue | 15,988.5 | 2,626.9 | 3,115.6 | 3,378.3 | 3,415.9 | 3,451.8 | |
| Total Operating Revenue | 315,590.8 | 60,198.0 | 61,838.1 | 63,275.3 | 64,510.8 | 65,768.6 | |
| PURCHASED POWER OPERATING EXPENSE | | | | | | | |
| Transmission & Distribution | 3,667.1 | 677.0 | 704.1 | 732.3 | 761.6 | 792.1 | |
| Customer Accounts Expense | 5,124.8 | 946.2 | 984.0 | 1,023.4 | 1,064.3 | 1,106.9 | |
| Customer Service Expense | 1,995.6 | 368.5 | 383.2 | 398.5 | 414.4 | 431.0 | |
| Administrative & General | 5,416.9 | 1,000.1 | 1,040.1 | 1,081.7 | 1,125.0 | 1,170.0 | |
| Maintenance Expense | 14,457.8 | 2,669.3 | 2,776.1 | 2,887.1 | 3,002.6 | 3,122.7 | |
| Operating & Maintenance | 30,662.2 | 5,661.1 | 5,887.5 | 6,123.0 | 6,367.9 | 6,622.7 | |
| OTHER OPERATING EXPENSE | | | | | | | |
| Depreciation Expense | 11,691.4 | 2,246.6 | 2,291.5 | 2,337.4 | 2,384.1 | 2,431.8 | |
| Taxes & Tax Equivalents | 7,662.1 | 1,443.2 | 1,486.5 | 1,531.1 | 1,577.0 | 1,624.3 | |
| Total Other Operating Expense | 19,353.5 | 3,689.8 | 3,778.0 | 3,868.5 | 3,961.1 | 4,056.1 | |
| Total Operating Expense | 312,414.1 | 59,972.0 | 61,047.7 | 62,401.3 | 63,787.1 | 65,206.0 | |
| INCOME | | | | | | | |
| Other Income | 1,945.3 | 722.4 | 205.8 | 296.1 | 323.8 | 397.2 | |
| Discounted Energy Units | 1,249.0 | 334.5 | 294.5 | 252.2 | 207.5 | 160.3 | |
| Total Other Income | 3,194.3 | 1,056.9 | 500.3 | 548.3 | 531.3 | 557.5 | |
| Net Income Before Debt Expense | 6,370.9 | 1,282.9 | 1,290.7 | 1,422.2 | 1,255.0 | 1,120.1 | |
| DEBT EXPENSE | | | | | | | |
| Interest on Customer Deposits | 68.4 | 14.4 | 12.0 | 13.0 | 14.0 | 15.0 | |
| Interest on LT Debt-Bonds | 5,020.7 | 1,021.2 | 1,021.2 | 1,009.1 | 993.0 | 976.2 | |
| NET INCOME | 5,761.0 | 247.3 | 257.5 | 400.1 | 248.0 | 128.9 | |
| DEPRECIATION FUNDS AND CASH INVESTMENTS | | | | | | | |
| | | 6,860.8 | 7,401.5 | 6,475.4 | 6,620.3 | 5,922.5 | |

BRISTOL TENNESSEE ESSENTIAL SERVICES
INCOME STATEMENT
BUDGET: FISCAL YEAR 2006

| | TOTAL | JULY | AUG. | SEPT. | OCT. | NOV. | DEC. | JAN. | FEB. | MAR. | APR. | MAY | JUNE |
|--------------------------------|----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| (\$000'S) | | | | | | | | | | | | | |
| OPERATING REVENUE | | | | | | | | | | | | | |
| Electric Sales | 57,571.3 | 4,601.5 | 4,412.0 | 4,727.0 | 3,881.7 | 4,114.5 | 4,899.9 | 6,178.5 | 5,988.8 | 5,760.8 | 5,119.0 | 4,004.3 | 3,883.3 |
| Other Electric Revenue | 2,626.9 | 233.6 | 148.0 | 162.6 | 241.7 | 168.9 | 214.1 | 435.3 | 187.8 | 193.4 | 266.5 | 186.1 | 188.9 |
| Total Operating Revenue | 60,198.0 | 4,835.1 | 4,560.0 | 4,889.6 | 4,123.4 | 4,283.4 | 5,114.0 | 6,613.8 | 6,176.6 | 5,954.2 | 5,385.5 | 4,190.4 | 4,072.2 |
| Purchased Power | 50,621.1 | 4,046.9 | 3,916.4 | 4,062.1 | 3,407.2 | 3,557.0 | 4,239.7 | 5,724.6 | 5,302.0 | 5,142.1 | 4,391.8 | 3,344.2 | 3,487.1 |
| OPERATING EXPENSE | | | | | | | | | | | | | |
| Transmission & Distribution | 677.0 | 51.5 | 46.4 | 52.8 | 88.2 | 49.5 | 24.0 | 66.0 | 65.0 | 82.8 | 22.9 | 63.8 | 64.1 |
| Customer Accounts Expense | 946.2 | 63.9 | 75.9 | 88.6 | 70.4 | 91.8 | 71.9 | 77.1 | 88.3 | 89.2 | 72.1 | 78.4 | 78.6 |
| Customer Service Expense | 368.5 | 29.9 | 24.4 | 23.6 | 53.2 | 29.6 | 17.3 | 37.8 | 24.1 | 30.8 | 33.8 | 22.0 | 42.0 |
| Administrative & General | 1,000.1 | 87.6 | 100.4 | 82.9 | 67.6 | 81.1 | 83.7 | 96.3 | 83.1 | 91.7 | 72.7 | 76.5 | 76.5 |
| Maintenance Expense | 2,669.3 | 204.3 | 220.5 | 243.4 | 207.2 | 227.6 | 241.2 | 219.0 | 207.6 | 280.3 | 204.4 | 206.9 | 206.9 |
| Total Operating & Maintenance | 5,661.1 | 437.2 | 467.6 | 491.3 | 486.6 | 479.6 | 438.1 | 496.2 | 468.1 | 574.8 | 405.9 | 447.6 | 468.1 |
| OTHER OPERATING EXPENSE | | | | | | | | | | | | | |
| Depreciation Expense | 2,246.6 | 182.7 | 182.7 | 182.7 | 182.5 | 182.7 | 182.9 | 191.4 | 191.7 | 192.0 | 192.3 | 191.5 | 191.5 |
| Taxes & Tax Equivalents | 1,443.2 | 127.5 | 118.1 | 118.4 | 117.6 | 117.4 | 125.8 | 120.6 | 119.0 | 119.1 | 119.3 | 120.2 | 120.2 |
| Total Other Operating Expense | 3,689.8 | 310.2 | 300.8 | 301.1 | 300.1 | 300.1 | 308.7 | 312.0 | 310.7 | 311.1 | 311.6 | 311.7 | 311.7 |
| Total Operating Expense | 59,972.0 | 4,794.3 | 4,684.8 | 4,854.5 | 4,193.9 | 4,336.7 | 4,986.5 | 6,532.8 | 6,080.8 | 6,028.0 | 5,109.3 | 4,103.5 | 4,266.9 |
| INCOME | | | | | | | | | | | | | |
| Operating Income | 226.0 | 40.8 | (124.8) | 35.1 | (70.5) | (53.3) | 127.5 | 81.0 | 95.8 | (73.8) | 276.2 | 86.9 | (194.7) |
| Other Income | 722.4 | 42.8 | 47.3 | 49.5 | 49.2 | 51.4 | 54.0 | 84.2 | 89.0 | 84.6 | 85.5 | 41.9 | 43.0 |
| Discounted Energy Units | 334.5 | 29.3 | 29.1 | 28.8 | 28.6 | 28.3 | 28.0 | 27.7 | 27.5 | 27.2 | 26.9 | 26.7 | 26.4 |
| Net Income Before Debt Expense | 1,282.9 | 112.9 | (48.4) | 113.4 | 7.3 | 26.4 | 209.5 | 192.8 | 212.3 | 38.0 | 388.6 | 155.5 | (125.3) |
| DEBT EXPENSE | | | | | | | | | | | | | |
| Interest on Long-Term Debt | 14.4 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Interest on LT Debt-Bonds | 1,021.2 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 | 85.1 |
| NET INCOME | 247.3 | 26.6 | (134.7) | 27.1 | (79.0) | (59.9) | 123.2 | 106.5 | 126.0 | (48.3) | 302.3 | 69.2 | (211.6) |

Bristol Tennessee Electric System
Total Operations and Maintenance Expense



| | | | | | | | | | | | |
|--------|---------|-------|---------|-------|---------|-------|---------|-------|---------|-------|---------|
| Budget | 4,624.4 | 7.33% | 4,965.8 | 3.6% | 5,144.2 | 5.86% | 5,445.9 | 0.93% | 5,496.4 | 0.03% | 5,661.1 |
| Actual | 4,614.4 | 2.48% | 4,725.2 | 8.62% | 5,132.6 | 4.79% | 5,378.7 | | | | |

\$ (000)

Income Statement Explanation

| | 2004 - 2005 Budget <small>(in thousands of dollars)</small> | 2005 - 2006 Budget <small>(in thousands of dollars)</small> |
|---|---|---|
| OPERATING REVENUE | | |
| Electric Sales | | |
| Residential Sales - Revenue - #440: This account shall include net billing to residential customers for electricity consumption. | 27,900.0 | 28,644.5 |
| Small General Power Sales - Revenue - #441: This account shall include net billing to small general power customers for electricity consumption. | 3,829.4 | 4,085.8 |
| Large General Power Sales - Revenue - #442: This account shall include billing to large general power customers for electricity consumption. | 21,353.6 | 23,795.7 |
| Street and Outdoor Lighting Sales - Revenue - #444: This account shall include billing for street and outdoor lighting electricity consumption. | 950.4 | 1,045.3 |
| Total Electric Sales | 54,033.4 | 57,571.3 |
| Other Revenue | | |
| Access Charge - #417: This account shall include an access charge for each cable and Internet service to cover cost associated with joint use of fiber optic network. | 0.0 | 206.5 |
| Penalties - Revenue - #450: This account shall include the amount of additional charges imposed because of the failure of customers to pay their electric bill on or before a specified date. | 300.0 | 354.3 |
| Miscellaneous Services - #451: This account shall include customer payments for temporary services and cost of labor, materials, and vehicles to install a temporary service on customer premises; the fees received from new customers for connecting their electric service and the cost of labor to turn customer services on and off; the payments received from customers for returned checks; payments from disconnected customers to reconnect their service. | 25.1 | 34.0 |
| Rent BVUB - Revenue - #454.2: This account shall include rent payments from BVUB for rent of control house and our facilities at Shelby Street Substation. | 0.9 | 0.9 |

| | 2004 - 2005 Budget (in thousands of dollars) | 2005 - 2006 Budget (in thousands of dollars) |
|--|--|--|
| Rent TV Cable - Revenue - #454.3: This account shall include rent payments from TV cable system for pole taps. | 285.2 | 304.4 |
| Equipment Charges - Revenue - #454.5: This account shall include billing to our customers for excess capacity. | 1,200.0 | 1,502.1 |
| Rent Sprint - Revenue - #454.6: This account shall include payments from Sprint per our joint pole agreements. | 162.4 | 185.2 |
| Rent Miscellaneous - Revenue - #454.7: This account shall include payments from Kentucky Data Link and Comcast per our joint pole agreements. | .4 | 9.2 |
| Rent KMC - Revenue - #454.8: This account shall include payments from KMC per our joint pole agreements. | 48.3 | 29.2 |
| Other Revenue - Revenue - #456: This account shall include vendor compensation for collecting Tennessee State Sales Tax and Washington County Virginia Utilities Tax. | 1.4 | 1.1 |
| Total Other Revenue | 2,023.7 | 2,626.9 |
| Total Operating Revenue | 56,057.1 | 60,198.1 |

PURCHASED POWER

| | | |
|---|-----------------|-----------------|
| Purchased Power - #555: This account shall include wholesale power purchases from TVA. | 47,263.7 | 50,621.1 |
|---|-----------------|-----------------|

OPERATION EXPENSES

Transmission

| | | |
|---|------------|------------|
| Transmission Expenses - Operations - #566.1: This account shall include the cost of labor and materials used and expenses incurred in transmission map and record work, transmission office expenses and other transmission expenses not provided for elsewhere. | 9.8 | 9.8 |
|---|------------|------------|