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July 24, 2015

Docket Nos.: 50-321; 50-366;
50-424; 50-425;
52-025; 52-026

NL-15-1344
10 CFR 50.75
10 CFR 50.80
10 CFR 50.90
10 CFR 52.105

U.S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, DC 20555-0001

Southern Nuclear Operating Company
Hatch Nuclear Plant Units 1 and 2; Vogtle Electric
Generating Plant Units 1, 2, 3 and 4 Submission of Amended
Nuclear Decommissioning Master Trust Agreement for
the Edwin I. Hatch and Alvin W. Vogtle Nuclear Plants

Ladies and Gentlemen:

The Municipal Electric Authority of Georgia (MEAG Power) recently transferred its ownership interests in Vogtle Electric Generating Plant Units 3 and 4 to three wholly-owned special purpose entities. The NRC order allowing the transfer ordered that a "copy of the fully executed Amended and Restated Trust Agreement will be provided within 30 business days after the closing." (ADAMS Accession No. ML 15169A096.) Closing occurred on June 24, 2015; the thirty business day deadline is August 6, 2015.

Enclosed please find the Amended and Restated Master Trust Agreement for the Edwin I. Hatch and Alvin W. Vogtle Nuclear Plants. Because the Agreement references the decommissioning trusts for Vogtle 1 and 2 and Hatch 1 and 2, this is being submitted to those dockets, too.

This supplement contains no additional regulatory commitments and satisfies a commitment made as part of the MEAG Power license transfer. In accordance with 10 CFR 50.91, SNC is notifying the State of Georgia by transmitting a copy of this letter to the designated State Official. Should you have any questions, please contact Brian Meadors at (205) 992-7331.

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A001
NRR
NRO

Mr. C. R. Pierce states he is the Regulatory Affairs Director for Southern Nuclear Operating Company, is authorized to execute this oath on behalf of Southern Nuclear Operating Company and, to the best of his knowledge and belief, the facts set forth in this letter are true.

Respectfully submitted,

C. R. Pierce

C. R. Pierce
Regulatory Affairs Director

CRP/CBM/lc

Sworn to and subscribed before me this 24th day of July, 2015.

C. B. Galt
Notary Public

My Commission expires: 1-2-2018

Enclosure: Master Trust Agreement for the Edwin I. Hatch and Alvin W. Vogtle
Nuclear Plants (June 2015)

cc:

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Document Services RTYPE: VND.LI.L00; RTYPE: CVC7000; RTYPE: CHA02.004

File AR.01.02.06

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**Southern Nuclear Operating Company
Hatch Nuclear Plant Units 1 and 2; Vogtle Electric
Generating Plant Units 1, 2, 3 and 4 Submission of Amended
Nuclear Decommissioning Master Trust Agreement for
the Edwin I. Hatch and Alvin W. Vogtle Nuclear Plants**

Enclosure

**Nuclear Decommissioning Master Trust Agreement for the
Edwin I. Hatch and Alvin W. Vogtle Nuclear Plants (June 2015)**

***MUNICIPAL ELECTRIC AUTHORITY OF GEORGIA,
MEAG POWER SPVJ, LLC
MEAG POWER SPVP, LLC
&
MEAG POWER SPVM, LLC
AMENDED AND RESTATED
NUCLEAR DECOMMISSIONING MASTER TRUST AGREEMENT
FOR
THE EDWIN I. HATCH AND ALVIN W. VOGTLE NUCLEAR PLANTS***

Effective June 22, 2015

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AMENDED AND RESTATED
NUCLEAR DECOMMISSIONING MASTER TRUST AGREEMENT

THIS AMENDED AND RESTATED TRUST AGREEMENT ("Trust Agreement") made and entered into this 22nd day of June, 2015, by and between the **MUNICIPAL ELECTRIC AUTHORITY OF GEORGIA**, a public body corporate and politic and a public corporation organized and existing under and by virtue of the laws of the State of Georgia ("the Authority"), **MEAG POWER SPVJ, LLC** ("SPVJ"), a Georgia limited liability company, **MEAG POWER SPVP, LLC** ("SPVP"), a Georgia limited liability company, and **MEAG POWER SPVM, LLC** ("SPVM"), a Georgia limited liability company, (each a "Grantor" and together "Grantors") as Grantors, and **THE BANK OF NEW YORK MELLON**, a New York banking corporation having trust powers (the "Trustee"), as Trustee.

W I T N E S S E T H

THAT WHEREAS, the Authority is currently the owner and licensee of certain undivided interests, as hereinafter set out, in the Alvin W. Vogtle Nuclear Plant Units 1 and 2 (individually, "Vogtle Unit 1" and "Vogtle Unit 2," and collectively, "Vogtle Units 1 and 2") and the Edwin I. Hatch Nuclear Plant Units 1 and 2, (individually, "Hatch Unit 1" and "Hatch Unit 2," and collectively, "Hatch Units 1 and 2"), and associated facilities hereinafter described; and

WHEREAS, the Authority is currently the owner and licensee of certain undivided interests in the Alvin W. Vogtle Nuclear Plant Units 3 and 4 and associated facilities (individually, "Vogtle Unit 3" and "Vogtle Unit 4," and collectively, "Vogtle Units 3 and 4"), and SPVJ, SPVP, and SPVM are expected to become the owner and licensee of respective interests in Vogtle Units 3 and 4; and

WHEREAS, the Grantors' interests in Vogtle Units 1 and 2, Hatch Units 1 and 2, and Vogtle Units 3 and 4 (together, the "Plants") are subject to regulation by the United States Nuclear Regulatory Commission (the "NRC"), an agency of the United States Government; and

WHEREAS, pursuant to the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, the NRC has promulgated regulations in Title 10 of the Code of Federal Regulations, Part 50, which require that a holder of, or an applicant for, a license to operate a nuclear power plant provide certain financial assurance that funds will be available when needed for required decommissioning costs and activities; and

WHEREAS, in order to comply with the foregoing regulations, the Authority has created and established a separate decommissioning trust for each Hatch Unit and each existing Vogtle Unit, *i.e.*, Hatch Unit 1, Hatch Unit 2, Vogtle Unit 1 and Vogtle Unit 2, which was established pursuant to the Municipal Electric Authority of Georgia Decommissioning Trust for the Edwin I. Hatch and Alvin W. Vogtle Nuclear Plants, effective January 1, 1990, as amended (the "Original Trust Agreement"); and the Authority desires to establish a separate decommissioning trust for each planned Vogtle Unit, *i.e.*, Vogtle Unit 3 and Vogtle Unit 4; and each of the other Grantors desires to establish a decommissioning trust for Vogtle Unit 3 and a decommissioning trust for Vogtle Unit 4; and the Authority and the Trustee desire to amend and restate the Original Trust Agreement; and

WHEREAS, a portion of each decommissioning trust exists for purposes of receiving funds to provide the required levels of funds and financial assurance for each Grantor's *pro rata* share of the future decommissioning costs of the plants and associated facilities ("License Termination 50.75 Account"); and

WHEREAS, it is also expected that there will be future decommissioning costs associated with the Grantors' respective *pro rata* undivided interests in portions of the plants and associated facilities hereinafter described, over and above those required to be funded in the License Termination 50.75 Account within each trust, and for which funds are expected to be set aside for other lawful purposes ("Non-License Termination Non-50.75 Account"); and

WHEREAS, the Grantors have selected the Trustee to act as the Trustee hereunder; and

WHEREAS, the Trustee is willing to act and serve as Trustee hereunder upon the terms, provisions and conditions hereinafter set forth;

NOW, THEREFORE, the Grantors and the Trustee agree as follows:

ARTICLE I
GENERAL PROVISIONS

1.1 Name of Trusts. The Grantors each create the following Trust Funds (referred to herein as the "Trusts" or the "Trust Funds"):

<u>Grantor:</u>	<u>Trusts:</u>
Authority	MEAG Power Hatch Unit 1 Trust MEAG Power Hatch Unit 2 Trust MEAG Power Vogtle Unit 1 Trust MEAG Power Vogtle Unit 2 Trust MEAG Power Vogtle Unit 3 Trust MEAG Power Vogtle Unit 4 Trust
SPVJ	SPVJ Vogtle Unit 3 Trust SPVJ Vogtle Unit 4 Trust
SPVP	SPVP Vogtle Unit 3 Trust SPVP Vogtle Unit 4 Trust
SPVM	SPVM Vogtle Unit 3 Trust SPVM Vogtle Unit 4 Trust

Each Trust Fund is the entire undistributed amount of all contributions and/or transferred assets placed with the Trustee, as adjusted for all income, expense, gain, or loss on such amount as may exist from time to time.

Grantors have previously released, assigned, transferred, conveyed and delivered unto the Trustee all of that property in the existing Trust Accounts, to have and to hold the same in trust for the uses and purposes and subject to the terms, provisions, conditions and powers hereinafter set forth.

1.2 Grantors; Trustee. The Grantor for each Trust is as set forth in the Table in Section 1.1. The Trustee under this Amended and Restated Trust Agreement is The Bank of New York Mellon, its successors and assigns, or any other person, company, bank, or trust company appointed as provided in Section 7.11.

1.3 Authority to Act as Agent. SPVJ, SPVP, and SPVM hereby appoint the Authority as their Agent for all purposes under this Agreement; provided, however, in acting as Agent for SPVJ, SPVP, or SPVM, the Authority shall be bound to comply and shall comply with all laws and regulations and lawful Orders or other direction provided by any governmental agency with jurisdiction, such as the NRC, that are applicable to SPVJ, SPVP, and SPVM.

ARTICLE II **DEFINITIONS**

2.1 Certain Terms Defined. For all purposes of this Agreement, unless context otherwise requires, the following terms shall have the following meanings:

- (a) **“Account”** shall mean either a License Termination 50.75 Account or a Non-License Termination Non 50.75 Account as those terms are defined below.
- (b) **“Agreement”**, **“Trust Agreement”** and the terms **“hereof”**, **“herein”**, **“hereto”** and **“hereunder”** when used in this Agreement shall mean and include this Agreement as the same may **from** time to time be amended, modified or supplemented.
- (c) **“Authority”** shall mean the Municipal Electric Authority of Georgia, a public body corporate and politic and a public corporation organized and existing under and by virtue of the laws of the State of Georgia, and its successors or assigns.
- (d) **“Authorized Officer”** shall mean the President, Treasurer, Secretary, Chief Financial Officer or any Vice President identified as such in an incumbency certificate delivered to the Trustee.
- (e) **“Board of the Authority”** or **“Board”** shall mean the nine member Board of the Authority.
- (f) **“Code”** shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.
- (g) **“Decommissioning Costs”** shall mean the costs and expenses incurred or to be incurred in the future to remove the plants and associated facilities hereinafter described, including all common facilities associated with each such Plant, safely from service and to reduce residual radioactivity to a level that permits release of the property for unrestricted use and termination of an NRC operating license, which may include costs over and above those costs and expenses funded in the License Termination 50.75 Account.
- (h) **“Disbursement Certificate”** shall mean a document properly completed and executed by an authorized representative of the Authority and delivered to the Trustee, certifying that the amounts shown therein to be paid are Decommissioning Costs incurred hereunder, in substantially the form attached hereto as **Exhibit 1**.
- (i) **“Fund”** or **“Trust Fund”** shall mean any one of the separate trust funds established hereunder, and **“Funds”** or **“Trust Funds”** shall mean all of the trust funds established hereunder, collectively.
- (j) **“Future Orders”** shall mean any orders of the NRC or any successor agency or any other federal or state agency having jurisdiction over the Grantors’ interests in the

Plants, or any federal or state laws hereafter adopted and applicable to the retention, investment and utilization of funds for the costs of decommissioning any of the Plants herein described, above and beyond those funds in the License Termination 50.75 Account, which are applicable to the Grantors.

(k) **“Investment Manager”** shall mean any fiduciary or fiduciaries designated as an Investment Manager hereunder by the Authority.

(l) **“License Termination 50.75 Account”** shall mean an account established within each Trust Fund, which is intended to provide decommissioning funding assurance for funding the decommissioning costs contemplated by the NRC’s regulations in 10 C.F.R. § 50.75. The funds held in the License Termination 50.75 Account are subject to the requirements of 10 C.F.R. § 50.75(h)(2), and the restrictions on the use of funds in 10 C.F.R. § 50.82(a)(8).

(m) **“Non-License Termination Non-50.75 Account”** shall mean an account established within each Trust Fund, which is intended to accumulate funds other than those required to satisfy the financial assurance requirements in the NRC’s regulations in 10 C.F.R. § 50.75, such as irradiated fuel management, non-radiological site restoration, or any other lawful purpose. The funds held in the Non-License Termination Non-50.75 Account are not subject to the requirements of 10 C.F.R. § 50.75(h)(2), and not subject to the restrictions on the use of funds in 10 C.F.R. § 50.82(a)(8).

(n) **“NRC”** shall mean the United States Nuclear Regulatory Commission, an agency of the United States Government, and its successors and assigns.

(o) **“Officer’s Certificate”** shall mean a certificate signed on behalf of an Issuer by an Authorized Officer and delivered to the Trustee.

(p) **“Opinion of Counsel”** shall mean an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Authority, or may be other counsel satisfactory to the Trustee. Each such opinion shall include the statements provided for in Section 10.09.

(q) **“Plant”** shall mean the Grantors’ undivided interests in and to each, and **“Plants”** shall mean the Grantors’ undivided interests in and to all, of the nuclear power plants and facilities listed and described herein, as such list or description may be supplemented from time to time by the Authority by written notice to the Trustee, and shall mean and include all common facilities associated with each such Plant and facility. Each unit of a multi-unit nuclear power plant site shall be considered as a separate Plant for the purposes of this Agreement.

(r) **“Prudent Investor Rules”** shall mean the “prudent investor” rules established by the Federal Energy Regulatory Commission in 10 C.F.R. § 35.32(a)(3), which incorporate by reference the meaning of “prudent investor” set forth in the Restatement of the Law (Third), Trusts § 227, including general comments and reporter’s notes.

(s) **“SPVJ”** shall mean MEAG Power SPVJ, LLC, a Georgia limited liability company, and its successors or assigns.

(t) **“SPVM”** shall mean MEAG Power SPVM, LLC, a Georgia limited liability company, and its successors or assigns.

(u) “**SPVP**” shall mean MEAG Power SPVP, LLC, a Georgia limited liability company, and its successors or assigns.

(v) “**Transfer Certificate**” shall mean a document properly completed and executed by an Authorized Officer of the Authority and delivered to the Trustee, certifying that the amounts shown therein are required to be transferred from a Trust’s Non-License Termination Non-50.75 Account to the same Trust’s License Termination 50.75 Account, to the Authority, or to a third party as Transfer Payments, substantially in the form attached hereto as Exhibit 3

(w) “**Transfer Payment**” shall mean a payment from a Trust’s Non-License Termination Non-50.75 Account to the same Trust’s License Termination 50.75 Account, to the Authority, or to a third party made pursuant to a Transfer Certificate.

(x) “**Trust**” shall mean each, and “**Trusts**” shall mean all, of the separate Funds created and established hereunder.

(y) “**Trustee**” shall mean The Bank of New York Mellon, the original Trustee named herein, and its successors and assigns, which shall be deemed to include any bank or trust company into which it may hereafter be merged or consolidated. Trustee shall also mean any successor Trustee subsequently appointed under the provisions of this Agreement.

(z) “**Trust Estate**” or “**Trust Property**” shall mean all of the property held from time to time by the Trustee under this Agreement.

(aa) “**Trust Monies**” shall mean all cash, dividends, income, interest, proceeds and other receipts of or from the Trust Estate.

(bb) “**Withdrawal Certificate**” shall mean a document properly completed and executed by an authorized representative of the Authority and delivered to the Trustee, certifying that the amounts shown therein have been paid by a Grantor as Decommissioning Costs hereunder, in substantially the form attached hereto as Exhibit 2.

(cc) “**Working Day**” shall mean any day other than Saturdays, Sundays or any other day that banks in the State of Georgia are required or permitted to be closed.

2.2 Meaning of Other Terms. Except when the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations and corporations. All references herein to Articles, Sections and other subdivisions refer to the corresponding Articles, Sections and other subdivisions of this Agreement; and the words “herein”, “hereof”, “hereby”, “hereunder” and words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE III **PURPOSE OF TRUST AGREEMENT;** **ESTABLISHMENT OF SEPARATE TRUSTS**

3.1 Intent and Purpose of Trust Agreement. The Grantors’ intent in establishing the Trusts is to provide assurance that the Plants will be safely removed from service and that residual radiation will be reduced to permit release of the property for unrestricted use and to comply with the applicable NRC regulations and with any Future Orders with respect to such decommissioning, by providing funds for contemplated future Decommissioning Costs associated with their *pro rata* undivided interest in the Plants

herein described, including costs over and above those provided for in the License Termination 50.75 Account, and, if so determined and directed by the Authority in its sole discretion, to pay funds held hereunder over to the Trustee to be held thereafter upon the terms and provisions of this Trust Agreement. Therefore, the Grantors intend that the Trusts continue until such time as all of its decommissioning obligations, requirements or costs are satisfied, as determined by the Authority, or until such later time as the NRC determines that such decommissioning obligations have been satisfied and that the Trusts are no longer required. Toward those ends, the purpose of this Trust Agreement is to provide the NRC-mandated funds for the contemplated future Decommissioning Costs related to the Grantors' undivided interests in the Plants herein described, in order to provide reasonable assurance that the Plants will be safely removed from service and that residual radiation will be reduced to permit release of the property for unrestricted use, and to comply with the applicable NRC regulations with respect to such decommissioning, and the Trust Property and all net income therefrom shall be held and distributed for such purposes only, and for no other uses or purposes, and upon termination as hereinafter provided, all Trust Property and Funds not so used, if any, shall be returned to the Grantors.

3.2 Separate Trust Funds for Hatch Units 1 and 2, Vogtle Units 1 and 2, and Vogtle Units 3 and 4. The Trustee has established twelve (12) separate Trusts hereunder, one each for Hatch Unit 1, Hatch Unit 2, Vogtle Unit 1, and Vogtle Unit 2; four (4) for Vogtle Unit 3; and four (4) for Vogtle Unit 4 as hereinafter described, each such Trust to be known as follows:

<u>Grantor:</u>	<u>Trusts:</u>
Authority	MEAG Power Hatch Unit 1 Trust MEAG Power Hatch Unit 2 Trust MEAG Power Vogtle Unit 1 Trust MEAG Power Vogtle Unit 2 Trust MEAG Power Vogtle Unit 3 Trust MEAG Power Vogtle Unit 4 Trust
SPVJ	SPVJ Vogtle Unit 3 Trust SPVJ Vogtle Unit 4 Trust
SPVP	SPVP Vogtle Unit 3 Trust SPVP Vogtle Unit 4 Trust
SPVM	SPVM Vogtle Unit 3 Trust SPVM Vogtle Unit 4 Trust

3.3 Separate Accounts for Each Trust. Within each Trust listed in Sections 3.2, the Trustee shall establish a License Termination 50.75 Account and a Non-License Termination Non-50.75 Account. The License Termination 50.75 Account is intended to provide the financial assurance required by 10 C.F.R. § 50.75 of the NRC's regulations and shall be restricted to the purposes for which funding is required pursuant to 10 C.F.R. § 50.75. The Non-License Termination Non-50.75 Account is not governed by NRC's regulations in 10 C.F.R. § 50.75 or 10 C.F.R. § 50.82(a)(8). Upon the request of the Grantor of a Trust, the Trustee shall establish and maintain one or more subaccounts within each Account.

3.4 Separate Records. Commingling of Investments. The Trustee shall maintain separate records for each Trust, and each License Termination 50.75 and Non-License Termination Non-50.75 Account within each Trust, and any subaccount within any Account, and record the amounts contributed to each Trust and each

Trusts' License Termination 50.75 and Non-License Termination Non-50.75 Account, and any subaccount within any Account. For each License Termination 50.75 Account and Non-License Termination Non 50.75 Account, and any subaccount within any Account, the Trustee shall credit thereto the *pro rata* share of all income of the Trust Funds and charge thereto the *pro rata* share of all expenses (other than expenses attributable to a particular Plant which shall be expenses charged to the Trust named for such Plant) and any losses. However, unless otherwise instructed in writing by the Authority, nothing contained in this Section 3.4 or elsewhere herein shall be deemed to require the Trustee to segregate or invest separately assets of the Trust Funds, it being intended that the assets of the Trust Funds may be held, managed, invested and reinvested in undivided interests in the same property, but shall not be required to be so maintained or invested.

ARTICLE IV **DISPOSITIVE PROVISIONS**

4.1 Payment of Nuclear Decommissioning Costs. The Trustee shall make payments for any Plant from the corresponding Trust in accordance with the following procedures:

(a) **Disbursements to Third Parties.** The Trustee shall make payments of Decommissioning Costs to any person (other than the Authority) for goods provided or labor or other services rendered to the Authority in connection with the decommissioning of a Plant in accordance with a Disbursement Certificate from the Authority.

(b) **Reimbursement to the Authority.** The Trustee shall make payments to the Authority in reimbursement of Decommissioning Costs actually incurred by the Authority, and paid to any other person, in accordance with a Withdrawal Certificate from the Authority.

(c) **Transfers by the Authority.** The Trustee shall make payments from the Non-License Termination Non-50.75 Account to the same Trust's License Termination 50.75 Account, to the Authority, or to a third party for the purpose of making Transfer Payments on the date specified in a Transfer Certificate from the Authority.

The Trustee shall be under no duty to inquire into the correctness or accuracy of matters contained in any properly executed Disbursement Certificate, Withdrawal Certificate or Transfer Certificate unless the representative of the Trustee involved with the certificate in question has actual knowledge that any statement made therein is not true.

4.2 Default by Authority. In the event of the Authority's failure, whether by default or inability, to exercise any of its rights or obligations under this Trust Agreement, the NRC may assume any and all of such rights and/or obligations as the NRC may, in its sole discretion, deem necessary or appropriate, and the NRC is made a beneficiary of the Trusts for this purpose. If, pursuant to the terms of this Section 4.2, the NRC assumes any rights and/or obligations of the Authority hereunder, the NRC shall provide the Trustee with written notification of any such assumption stating that it is a Notice of Assumption under this Agreement. Thereafter, the Trustee shall make payments from the Funds, as the NRC shall direct in writing, solely for: (i) payment of the Decommissioning Costs covered by this Trust Agreement; and (ii) payment of all other expenses incurred by the Authority or the NRC in the discharge of any obligations under this Trust Agreement. In addition, the Trustee shall refund to the Authority any amounts as the NRC shall specify in writing as no longer required to provide for Decommissioning Costs, and upon such refund, such amounts shall no longer constitute part of the Funds.

The Trustee shall be under no duty to inquire into the correctness or accuracy of matters contained in any properly executed Certificate unless the representative of the Trustee involved with the certificate in

question has actual knowledge that any statement made therein is not true. The Trustee shall not be charged with having notice of a default under this Agreement unless it has received a Notice of Assumption.

In the event it becomes necessary for the NRC to undertake any rights or obligations of the Authority pursuant to this Section 4.2, the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith at the direction of the NRC.

4.3 Notice Regarding Disbursements, Withdrawals or Transfers. Except for (i) payments of ordinary administrative costs (including taxes) and other incidental expenses of the fund (including legal, accounting, actuarial, and trustee expenses) in connection with the operation of the Fund, and (ii) withdrawals being made under 10 C.F.R. § 50.82(a)(8), no disbursement, payment or transfer may be made from a License Termination 50.75 Account within a Trust until written notice of the intention to make a disbursement, payment or transfer has been given to the Director, Office of Nuclear Reactor Regulation, or the Director, Office of Nuclear Material Safety and Safeguards, as applicable, at least 30 Working Days before the date of the intended disbursement or payment. The disbursement or payment from the trust may be made following the 30 Working Day notice period if no written notice of objection from the Director, Office of Nuclear Reactor Regulation, or the Director, Office of Nuclear Material Safety and Safeguards, as applicable, is received by the Trustee or the Authority within the notice period. The required notice may be made by the Authority. No such notice is required for withdrawals being made pursuant to 10 C.F.R. § 50.82(a)(8).

4.4 Tax Withholding Obligations. In order to comply with applicable tax laws (inclusive of rules, regulations and interpretations promulgated by competent authorities) related to this Agreement in effect from time to time ("Applicable Tax Law") that a foreign financial institution, the Trustee, Grantors Authority, or other party is (or has agreed to be) subject to, the Authority agrees (i) upon the reasonable request of the Trustee, to provide to the Trustee information about the Trusts the Authority has in its possession, sufficient to permit the Trustee to determine whether it has tax related obligations under any Applicable Tax Law, (ii) that the Trustee shall be entitled to make any withholding or deduction from payments to the extent necessary to comply with Applicable Tax Law, and (iii) subject to the limitations set forth therein, to hold the Trustee harmless for any losses it may suffer to the extent it is complying with Applicable Tax Law. The terms of this Section 4.4 shall survive the termination of this Agreement.

ARTICLE V

GENERAL PROVISIONS RELATING TO THE TRUST

5.1 Alterations and Amendments. The Grantors and the Trustee understand and agree that modifications or amendments may be required to this Agreement from time to time to effectuate the purposes of this Agreement and to comply with amendments to or changes in NRC rules and regulations, any Future Orders, and any other changes in the laws applicable to the Grantors, the Plants or the Trusts. The Grantors and the Trustee may amend this Agreement to the extent necessary or desirable to effectuate such purpose or to comply with such Future Orders or changes. This Agreement also may be modified or amended to effectuate the handling of investments and administrative reports and details. Any modification or amendment to this Agreement shall be by an instrument in writing signed by the Grantors and the Trustee. The Trustee shall have no duty to inquire or make any investigations as to whether any proposed amendment is consistent with this Section, and the Grantors shall furnish the Trustee, if it so requests an Officer's Certificate and an Opinion of Counsel that all conditions precedent to any such amendment required by this Agreement have been complied with and the execution of the amendment is authorized or permitted by this Agreement and does not violate the rules and regulations of any federal or state agency having jurisdiction over the Grantors' interests in the Plants, and that all necessary approvals to such amendment have been obtained; provided, however, in any such event, the Trustee may decline to adopt any such amendment, if such amendment materially increases the expenses or responsibility of the Trustee and no adequate provision is made to compensate the Trustee for such increase, or if the Trustee would be unable, with reasonable effort, to comply with its duties as to be amended.

5.2 Additions to Trusts. From time to time prior to the termination of any Trust hereunder, the Grantors may make, and the Trustee shall accept, additional contributions of funds to such Trust, provided such property is acceptable to the Trustee, to be held hereunder. The making of a contribution by a Grantor shall constitute the certification of the Grantor that all necessary consents and approvals to such contribution, if any are required, have been obtained.

5.3 Return of Excess Funds. From time to time prior to the termination of any Trust hereunder, the Grantor may determine that the funds in such Trust exceed the amount required for the Decommissioning Costs of the related Plant. Upon delivery of a Transfer Certificate of the Authority to the Trustee stating that an amount in a Non-License Termination Non-50.75 Account is not needed to pay the Decommissioning Costs of the related Plant, specifying the amount and the Trust or Trusts involved, and requesting payment of such excess amount, the Trustee shall distribute such excess amount to the Grantor. The delivery of such a certificate by the Authority shall constitute the certification of the Authority that all necessary orders, consents and approvals to such distribution have been obtained and that payment of such excess amount will not violate any rules or regulations of the NRC.

5.4 No Transferability of Interest in Any Trust. The interest of the Grantors in any Trust hereunder is not transferable, whether voluntarily or involuntarily, by the Grantors, nor subject to the claims of general or secured creditors of the Grantors; provided, however, that any creditor of a Grantor as to which a Disbursement Certificate for a Trust has been properly completed and submitted to the Trustee may assert a claim directly against such Trust in an amount not to exceed the lesser of the amount specified in such Disbursement Certificate or the amount of such Trust then available to pay Decommissioning Costs; provided further that, upon a transfer of their interests in Vogtle Unit 3 or Vogtle Unit 4 from SPVJ, SPVP or SPVM to the Authority, all interests in the License Termination 50.75 Accounts in the respective Trusts of SPVJ, SPVP or SPVM applicable to such interests shall be transferred to the Authority, and the Trustee shall transfer the assets of such trusts to the applicable MEAG Power Vogtle Unit 3 Trust and/or MEAG Power Vogtle Unit 4 Trust, as directed by the Authority. The assets in Non-License Termination Non-50.75 Accounts relating to any such transferred interests shall be disposed of as directed by the Authority.

5.5 No Authority to Conduct Business. The purpose of this Trust Agreement is limited to the matters set forth herein and this Agreement shall not be construed to confer upon the Trustee any authority to conduct business.

ARTICLE VI **TERMINATION**

6.1 Time of Termination. Each separate Trust hereunder shall continue until terminated upon the first to occur of the following events:

(a) Upon the substantial completion of the nuclear decommissioning of the Plant for which a separate Trust is created and named hereunder, as evidenced by a written certification of such substantial completion executed by the Authority and delivered to the Trustee.

(b) Upon the sale or other disposition by the Grantor of its interest in the Plant for which a separate Trust is created and named hereunder, as evidenced by a written certification of such sale or other disposition executed by the Authority and delivered to the Trustee, stating that such sale or other disposition does not violate any rules or regulations of any federal or state agency having jurisdiction over the Plant; provided, however, that such certification shall direct the Trustee as to distribution of the Trust Funds, whether as set forth in Section 5.4, or to the Authority, or to the benefit of another entity succeeding to a Grantor's interest in a Plant.

(c) Upon an applicable rule or order of the NRC, or a final decision of any court of competent jurisdiction, that a Trust Fund for a Plant for which a Trust is created and named hereunder is no longer required, but in such event only upon notification by the Authority to the Trustee that the Grantor desires to terminate such Trust.

(d) Upon the distribution for the purposes of such Trust as provided herein of all or substantially all of the assets and property then held by the Trustee in a separate Trust created and named hereunder.

(e) Upon the decision of a Grantor to terminate any separate Trust or the Trusts, because the Trust or Trusts are not needed for the payment of the Decommissioning Costs of the Plant or Plants as evidenced by a written certification executed by the Authority and delivered to the Trustee, all Trust Funds shall be delivered to the Grantor or to such other entity or trust as directed by the Authority.

The termination of any separate Trust hereunder shall not affect nor cause the termination of this Trust Agreement or any other separate Trust hereunder, and this Trust Agreement shall terminate when all of the separate Trusts hereunder have terminated and all assets held by the Trustee hereunder have been distributed.

6.2 Distribution of Trust Assets Upon Termination. Upon termination of each separate Trust hereunder, the Trustee shall distribute the entire remaining amount of and all assets then held by it in such Trust, if any, including all accrued, accumulated and undistributed net income, to the Authority, or as the Authority may direct.

6.3 Certification by Authority. Anything herein to the contrary notwithstanding, in connection with any termination under the preceding subparagraphs of this Article VI, the Trustee shall act only upon (a) an order of the NRC, or any court of competent jurisdiction, having jurisdiction over the Authority's interest in the Plants, specifically authorizing such distribution, or (b) the Authority having furnished the Trustee with an Officer's Certificate and Opinion of Counsel to the effect that no such orders are necessary to authorize such distribution or that all conditions precedent in this agreement have been complied with and necessary orders, consents and approvals to such distribution have been obtained and the distribution is authorized or permitted by this Agreement. In addition, any certification by the Authority to the Trustee hereunder shall direct the Trustee under which of the preceding subparagraphs a termination has or is about to take place, shall request the Trustee to make a termination distribution hereunder and shall direct the Trustee as to the delivery of any property to be distributed; it being understood and agreed by the Authority that the Trustee shall be under no duty or obligation to inquire into or determine when and if a termination has occurred hereunder and that the Trustee shall make any terminating distribution only in reliance upon the Authority's certification and the order or opinion referred to above.

6.4 Continuation of Trust for Winding Up. After the termination of any separate Trust or of all the Trust Funds, and for the purpose of liquidating and winding up its affairs, the Trustee shall continue to act as such until its duties have been fully performed. Upon the distribution of all of the Trust Estate for the purposes of this Trust, or to the Grantor, and the payment and discharge of all debts, liabilities and obligations of the Trust Agreement, the Trustee shall have no further duties or obligations hereunder.

ARTICLE VII **GENERAL PROVISIONS RELATED TO THE TRUSTEE**

7.1 Management of Trust Property. The Trustee shall hold, manage, invest and reinvest the Trust Property and shall accumulate in the Trust and *pro rata* in each separate Account all net income, after payment of expenses and other disbursements as herein provided, from the Trust and add the same to the principal upon the receipt thereof. The Trustee accepts and undertakes to discharge the Trusts created by this Agreement, upon the terms, provisions and conditions hereof.

7.2 Compensation and Reimbursement of Expenses of Trustee. The Trustee shall receive as its compensation for its services, reimbursement of its expenses as agreed to in a fee letter of even date herewith from the Trustee to the Authority signed by the parties hereto. Such compensation may be adjusted from time to time in the future in such amounts as may be agreed upon in writing by the Trustee and the Authority.

7.3 Payment of Expenses of Administration. Subject to the written approval of the Authority, which shall not be unreasonably withheld or delayed, the Trustee shall be authorized to make payments from the Trust Estate of all administrative costs reasonably incurred by it in the performance of its duties under this Agreement including, but not limited to, Trustee's fees, legal, accounting and actuarial expense, reasonable out-of-pocket expenses and other incidental expenses incurred by the Trustee in connection with the administration of this Trust and each separate Trust. The Trustee is also authorized to make payments from the Trust Estate of all administrative costs incurred by or on behalf of the Grantors including, but not limited to, the fees and expenses of accountants, actuaries, attorneys, consulting engineers, Investment Managers, and other consultants, advisors and agents, general administrative fees and costs, and any other fees and expenses determined by the Authority to be appropriate for payment from the Trusts, upon written request from the Authority, or to reimburse the Authority therefore upon its written request. All such administrative expenses of a general nature shall be allocated proportionately among the Trusts established hereunder, and the Trustee shall maintain such records as are necessary to reflect the allocation of costs and expenses in accordance with this Section.

7.4 Financial Statements, Accounts and Reports. The Trustee shall keep accurate and detailed records and accounts of all investments, receipts and disbursements and other transactions hereunder and all accounts, books and records relating thereto shall be open to inspection and audit at all reasonable times by any person designated by the Authority.

7.5 Financial Statements. The Trustee shall furnish monthly financial statements for each Trust to the Authority not later than the seventh (7th) Working Day of the following month, or at such other less frequent interval as the Authority may require. The financial statements shall show the financial condition of the Trust, including without limitation, the market value of the assets, and the receipts, income, expenses, disbursements and other transactions of each Trust for the period since the preceding statement. Any such financial statement may be approved by the Authority by written notice to the Trustee or by failure to object to such financial statement within six (6) months of the delivery of the annual audit of the Authority. The approval of any such financial statement shall constitute a full and complete discharge of the Trustee as to all matters set forth in such financial statement; provided, however, that the foregoing shall not relieve or absolve the Trustee from any liability associated with a failure to perform its fiduciary responsibilities. The financial statements of the Trusts shall be audited annually by the independent certified public accountants then employed by the Authority or by other independent certified public accountants selected by the Authority for such purposes, and the Trustee agrees to make available and furnish such information as may be required for such audit and to cooperate fully therein.

7.6. Tax Information Returns and Other Reports. The Grantors represent to the Trustee that they believe the Trusts are exempt from taxes under current law and regulations. However, the Trustee agrees to prepare or cause to be prepared such income or other tax information returns and reports as may be required from time to time, and shall provide copies thereof to the Authority in advance of their filing for review by the Authority. The Trustee shall provide to the Authority all statements, documents, lists, or other information reasonably requested by the Authority. The Trustee shall also sign all such information returns which may be required and file them or cause them to be filed with the appropriate government agencies. The Trustee shall cooperate with all requests made by regulatory agencies and shall provide copies to the Authority in advance of all information submitted to regulatory agencies. At the Authority's request, the Trustee shall testify with respect to the Trusts and the Trust Fund in proceedings before regulatory agencies.

7.7 Transactions with Third Parties. No person or organization dealing with the Trustee hereunder shall be required to inquire into or to investigate its authority for entering into any transaction or to see to the application of the proceeds of any such transaction.

7.8 Exoneration from Bond and Court Returns. The Trustee shall not be required to give bond or surety and shall not be required to file any inventory or appraisal or any annual or other returns or reports with any court whatsoever; provided, however, that the Trustee shall furnish the financial statements and reports to the Authority as provided in Sections 7.4 and 7.5.

7.9 Removal of Trustee. The Authority may at any time remove the Trustee then serving and appoint a qualified successor Trustee by instrument in writing signed by the Authority and delivered to the then serving Trustee, which instrument shall designate and appoint the successor Trustee and which shall be effective no later than sixty (60) days from the date thereof or upon such shorter notice as may be designated by the Authority to the Trustee, provided that the successor Trustee has signified its acceptance of such appointment by instrument in writing delivered to the Authority and the then serving Trustee. Any Trustee so removed shall promptly deliver all property then held by it hereunder to the successor Trustee so appointed and shall thereafter be relieved of any further duties and obligations hereunder.

7.10 Resignation of Trustee. Any Trustee then serving hereunder may at any time resign upon sixty (60) days' notice, or upon such shorter notice as may be acceptable to the Authority, by an instrument in writing, signed by it and delivered to the Authority, and such resignation shall become effective upon the appointment of the qualified successor Trustee by the Authority as provided herein.

7.11 Appointment of Successor Trustee. In the event the Trustee should so resign, then the Authority shall appoint a successor Trustee, by instrument in writing, signed by it, and delivered to such successor and to the Trustee. Should the Authority fail or refuse within sixty (60) days so to appoint such successor, then such successor may be appointed by order of the Superior Court of Fulton County, Georgia, upon application of the Authority, or the then serving Trustee or of any person interested in the Trusts.

7.12 Acceptance of Appointment by Successor Trustee. Any successor Trustee appointed hereunder shall execute an instrument accepting such appointment hereunder and shall deliver one counterpart thereof to the Authority and, in case of a resignation or removal, to the retiring Trustee. Thereupon such successor Trustee shall, without any further act, become vested with all the estates, properties, rights, powers, trusts, and duties of its predecessor in the Trusts hereunder with like effect as if originally named Trustee herein; but the retiring Trustee shall nevertheless, when requested in writing by the successor Trustee or the Authority, and upon payment of lawful charges and disbursements then unpaid, if any, execute and deliver an appropriate instrument or instruments conveying and transferring to such successor Trustee upon the trusts herein expressed, all the estates, properties, rights, powers, and trusts of such retiring Trustee, and shall duly assign, transfer, and deliver to such successor Trustee all property and money held by it hereunder.

7.13 Successor Trustee. No successor Trustee shall be required to inquire into or audit the acts or doings of any predecessor Trustee or to make any claims against any predecessor Trustee, and any successor Trustee shall have and may exercise any and all of the powers, privileges, immunities and exemptions herein conferred upon the original Trustee as fully and to the same extent as if such successor originally had been named as a Trustee hereunder.

7.14 Reliance on Statement by Trustee. Any person dealing with the Trustee shall be fully protected in relying upon the Trustee's certificate that it has authority to take any action under this Trust Agreement.

7.15 Application of Money Paid or Transferred to Trustee. No person dealing with the Trustee shall be required to follow the application by the Trustee of any money or property which may be paid or transferred to the Trustee.

7.16 Future Orders. The Authority shall promptly advise the Trustee in writing of the existence of any Future Orders having the effect of imposing new or different responsibilities on the Trustee under this Agreement.

7.17 Certain Duties and Responsibilities of the Trustee.

(a) In the absence of bad faith on its part, the Trustee may conclusively rely upon requests, notices, approvals, certificates or opinions furnished to the Trustee and conforming to the requirements of this Agreement; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall have no duty to examine the same to determine whether they conform to the requirements of this Agreement unless the representative of the Trustee involved with the certificate in question has actual knowledge that any statement made therein is not true.

(b) No provision of this Agreement shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that (i) this Subsection shall not be constructed to limit the effect of Subsection (a) of this Section; (ii) the Trustee shall not be liable for any error of judgment made in good faith by a responsible officer of Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts or was otherwise negligent in making the judgment; and (iii) no provision of this Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

7.18 Certain Rights of Trustee. Except as otherwise provided in Section 7.17 hereof:

(a) Any request or direction of the Authority mentioned herein shall be sufficiently evidenced by a written request or direction signed, prepared or furnished by an authorized representative of the Authority or a verbal or telephonic request or order confirmed within a reasonable time by such a written request or direction, and any action of the Board of the Authority, and any actions taken by or through SPVJ, SPVP, and SPVM, may be sufficiently evidenced by a certificate of the Grantor's secretary or an assistant secretary;

(b) Whenever in the administration of any Trust created under this Agreement the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may rely upon the certificate of an authorized representative of the Authority or, after a default by the Authority and assumption of any rights and/or obligations of the Authority pursuant to the terms of this Section 4.2, the NRC;

(c) The Trustee may consult with legal counsel of its own selection; provided, however, that the Trustee will not select counsel that it knows represents another owner of any of the Plants. The written advice of such counsel or any opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in reliance thereon;

(d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request or direction of the Authority pursuant to this Agreement, unless the Authority shall have offered to the Trustee, to the extent permitted by applicable law, indemnity or

security satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(e) In no event will the Trustee be responsible or liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action;

(f) The Trustee may act through agents, attorneys or custodians and will not be responsible for the misconduct or negligence of any agent, attorney or custodian appointed with due care;

(g) The Trustee shall not incur any liability for not performing any act or fulfilling any duty, obligation or responsibility hereunder by reason of any occurrence beyond the control of the Trustee (including, but not limited to, any act or provision of any present or future law or regulation or governmental authority, any act of God or war, civil unrest, local or national disturbance or disaster, any act of terrorism, or the unavailability of the Federal Reserve Bank wire or facsimile or other wire or communication facility);

(h) The permissive rights of the Trustee to do things enumerated in this Agreement will not be construed as a duty unless so specified herein;

(i) The Trustee shall not be responsible for the existence, genuineness or value of the Trust Estate or any of the assets in the Trusts or for the validity, perfection, priority or enforceability of the liens in any such assets, whether impaired by operation of law or by reason of any act or omission of the Trustee hereunder, except to the extent that such act or omission constitutes negligence or willful misconduct of the Trustee, or for the validity of title to those assets, for insuring those assets, or for the payment of taxes, charges, assessments or liens upon those assets;

(j) In the event of any ambiguity or uncertainty under this Agreement or in any notice, instruction, or other communication received by the Trustee relating to this Agreement, the Trustee may, in its sole discretion, refrain from taking any action unless and until the Trustee receives written instructions signed by the Authority or, after a default by the Authority and assumption of any rights and/or obligations of the Authority pursuant to the terms of this Section 4.2, the NRC, which eliminates such ambiguity or uncertainty; and

(k) If the Trustee is required by a governmental agency or action initiated by a third party to undertake efforts beyond that which is set forth herein but related thereto (other than due to the Trustee's negligence or willful misconduct), the Trustee shall notify the Authority of the same in writing and the Authority shall promptly pay the Trustee for such extraordinary fees, costs and expenses reasonably and necessarily incurred in connection therewith, including reasonable attorneys' fees and expenses.

The provisions of this Section 7 and the other rights and protections of the Trustee under this Agreement shall survive the termination of this Agreement and the resignation or removal of the Trustee.

7.19 Indemnification. To the extent permitted by applicable law, the Authority will fully indemnify the Trustee, its officers, directors, employees, agents, attorneys, custodians, successors, and assigns (collectively, the "Indemnified Parties") against any and all loss, liability, claim, damage or expense (including reasonable attorneys' fees and expenses) incurred by them in connection with the acceptance and administration of this Agreement or the performance of their duties hereunder, including the costs and expenses of defending themselves against any claim (whether asserted by the Authority, the

Grantors, or any other person). The Authority need not reimburse any expense or indemnify against any loss, liability or expense incurred by any Indemnified Party through its own willful misconduct or negligence. The Authority's obligations pursuant to this Section 7.19 will survive the resignation or removal of the Trustee and the discharge of this Agreement.

ARTICLE VIII
LIMITATIONS ON AND DIRECTIONS TO TRUSTEE AS TO INVESTMENTS

8.1 Investment by Direction of Authority or Investment Manager(s).

(a) Anything herein to the contrary notwithstanding, unless and until otherwise instructed by the Authority, the Trustee shall invest and reinvest all of the Trust Property as directed in writing by the Authority or any Investment Manager, pursuant to the Authority's overall investment policy. The Authority shall, by appropriate certificate signed by it and delivered to the Trustee, provide the Trustee with written notice of its officers, employees and agents who are authorized to establish investment policy hereunder, and the Trustee shall be protected in relying on all directions and instructions received from any such person or persons. To the extent the assets of the Trust Funds have not been invested at the written direction of the Authority on any given day, the Trustee shall invest such uninvested assets as the Authority or its Investment Manager may direct in writing. The Authority and the Trustee shall establish appropriate systems, guidelines and procedures in order to effectuate such handling of investments hereunder.

(b) The Authority may appoint one or more Investment Managers. And, it may provide overall investment policy to the Trustee or an Investment Manager, but it may do so only in writing and may not serve as Investment Manager or otherwise engage in day-to-day management of the fund or mandate individual investment decisions. The Authority's investment policy is set forth in its Asset/Liability Management Policy (attached hereto as Exhibit 4).

8.2 Limitations on Investments. Investments under this Trust Agreement shall be limited to those permitted in accordance with the Prudent Investor Rule. The Authority intends to establish policies, procedures, guidelines and restrictions for handling investments under this Trust in its Asset/Liability Management Policy, which it may from time to time modify, change or supplement. The Authority shall notify the Trustee in writing when changes are made to its Asset/Liability Management Policy. To the extent permitted by applicable law, the Authority may expand, contract or otherwise change the investment policy.

Notwithstanding anything to the contrary herein, no Trust shall acquire or hold securities or other obligations of the Authority, or any other owner or operator of the Plants, or any of their affiliates as defined in the Investment Company Act of 1940, as amended, unless they are securities or other obligations of a state government.

8.3 Certain Duties of Trustee as to Authority-Directed Investments. The Trustee shall have no duty or obligation to make any recommendations with respect to the acquisition, retention and disposition thereof, and shall have no liability or responsibility to the Grantors or the Trusts for acting on the direction of, or for failure to act in the absence of direction from, the Authority or an Investment Manager.

8.4 Appointment of Investment Manager. The Authority shall have the right from time to time to appoint and remove one or more Investment Managers for any Trust held hereunder and to direct the segregation of any part or all of any such Trust into one or more accounts to be known as "investment manager accounts" and, if it does so, it shall appoint an individual, partnership, association or corporation as Investment Manager to direct, on its behalf, the portion of any Trust so segregated. Written notice of any such appointment and/or removal shall be given to

the Trustee and the Investment Manager so appointed. The appointment shall be accomplished using an investment manager agreement signed by the Authority and the Investment Manager and delivered to the Trustee. As long as the Investment Manager is acting, the Investment Manager shall have full authority, on behalf of the Authority, to direct in writing the investment (including the acquisition, retention and disposition of investments), subject to the limitations set forth in Section 8.2 hereof, of the assets and securities from time to time in the investment manager account being managed by the Investment Manager. The Trustee shall have no duty or obligation to review the assets from time to time comprising such investment manager account, or to make any recommendations with respect to the acquisition, retention and disposition thereof.

The Trustee shall have no liability or responsibility to the Grantors, the Authority or the Trusts for acting on the direction of, or for failure to act in the absence of directions from, the Investment Manager for any investment manager account. The Trustee may assume that any investment manager account previously established and the appointment of any Investment Manager for that account continues in force until receipt of written notice to the contrary from the Authority. Pending receipt of directions from the Investment Manager, any cash received by the Trustee from time to time for any investment manager account shall be invested upon receipt as the Authority or its Investment Manager may direct in writing. The Trustee shall have no duty or obligation to make any recommendations with respect to the acquisition, retention and disposition thereof, and shall have no liability or responsibility to the Grantors or the Trusts for acting on the direction of, or for failure to act in the absence of direction from, the Investment Manager. The Trustee shall advise the Investment Manager of information it receives from an issuer or similar source regarding calls, redemptions, purchase offers and similar matters relating to assets held in any Trust hereunder. To the extent permitted by applicable law, the Authority will indemnify the Trustee and hold it harmless from any liability or expense in connection with or arising out of (i) any action taken or omitted or any investment of the investment manager account made by the Trustee at the direction of the Investment Manager, or (ii) any action taken by the Trustee pursuant to notification of an order issued by an Investment Manager to purchase or sell securities directly to a broker or dealer under a power of attorney.

ARTICLE IX

TRUSTEE'S POWERS

9.1 Powers of the Trustee. In the management, care and disposition of this Trust, the Trustee hereunder, subject to the specific provisions hereof, shall have the power to do all things and to execute such instruments as may be deemed necessary or proper, including, but not limited to, the following powers, all of which may be exercised without order of or report to any court:

(a) To invest and reinvest all Trust Property as directed in writing by the Authority and/or Investment Manager in such securities and investments as the Authority and/or Investment Manager specifies;

(b) To sell, exchange or otherwise dispose of any property at any time held or acquired under this Trust, at public or private sale, for cash or on terms, without advertisement, including the right to lease and to grant options to buy for any term notwithstanding the period of the Trust;

(c) To retain for investment any property transferred to any Trust by the Authority, without regard to any law now or hereafter in force limiting the investments of fiduciaries, and the Trustee shall be under no obligation to diversify the investments of the Trusts;

(d) To collect, receive and hold any and all money and other property of whatsoever kind or nature due to or owing or belonging to a Trust;

(e) To vote in person or by proxy and to agree to or take any other action in regard to any reorganization, merger, consolidation, liquidation, bankruptcy or other procedure or proceeding affecting any stock, bond, note or other security held hereunder;

(f) To register any stock, bond or other security in the name of any nominee, without the addition of words indicating that such security is held in a fiduciary capacity; but accurate records shall be maintained showing that such security is a Trust asset, and the Trustee shall be responsible for the acts of such nominee;

(g) Subject to approval of the Authority, to employ, retain and remove attorneys, accountants, insurance consultants, custodians, engineers and other agents, if such employment be deemed necessary, and to pay reasonable compensation for their services;

(h) To compromise, settle or adjust any claim or demand by or against the Trusts, and to agree to any rescission or modification of any contract or agreement affecting the Trusts;

(i) To perform any act authorized, permitted, or required under any instruments relating to or forming a part of the Trust Estate whether in the nature of an approval, consent, demand, or notice thereunder or otherwise, unless such act would require the consent of the Authority in accordance with the express provisions of this Agreement;

(j) To do and perform any acts or things and only those acts or things necessary or appropriate for the conservation and protection of the Trust Estate.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1 Headings. All Article and Section headings set forth in this Agreement are for convenience only and shall not be deemed to be a part of this Agreement for any other purpose and shall not be taken as in any way limiting or interpreting any Section or Subsection of this Agreement.

10.2 Severability. In the event any provision of this Agreement or its application to any person or in any circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

10.3 Governing Law and Waiver of Jury Trial. This Agreement is entered into and executed in the State of Georgia, and all questions pertaining to its validity, construction and administration shall be governed by and determined in accordance with the laws of the State of Georgia. EACH PARTY TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT.

10.4 Notices. All written notices required to be given by this Agreement shall be deemed to have been properly given if delivered by hand or when mailed by registered or certified mail, return receipt requested, postage prepaid, to the parties hereto as follows:

If to the Grantors:

Municipal Electric Authority of Georgia
MEAG Power SPVJ, LLC
MEAG Power SPVP, LLC
MEAG Power SPVM, LLC
1470 Riveredge Parkway
Atlanta, Georgia 30328-4640
Attention: Senior Vice President, Chief Financial Officer

If to the Trustee:

The Bank of New York Mellon
Attention: Corporate Trust
505 North 20th Street, Suite 950
Birmingham, AL 35203
Fax: 205-328-7169

or at such other address or addresses, or to the attention of such other person or persons, as the Grantors or the Trustee may hereafter notify the other party in accordance herewith.

10.5 Fiscal Year. The fiscal year of the Trust shall end on December 31 of each year.

10.6 Successors and Assigns. Subject to the provisions of Sections 5.4, 7.9, 7.10, 7.11 and 7.12, this Agreement shall be binding upon and inure to the benefit of the Grantors, the Trustee, and their respective successors and assigns.

10.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

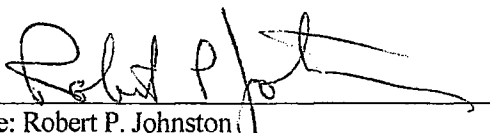
10.8 Electronic Means. The Trustee shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Agreement and delivered using email or facsimile ("Electronic Means"); provided, however, that the Authority shall provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the Authority whenever a person is to be added or deleted from the listing. If the Authority elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The Authority acknowledges that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer; provided, however, that the Authority may designate certain electronic mail addresses or other specific electronic addresses from time to time that are identified as being associated with specific Authorized Officers, and if instructed by the Authority, Trustee shall only act upon Instructions by Electronic Means if such direction is received from such electronic mail addresses or electronic addresses. The Authority shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Authority and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the Authority. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a

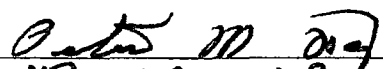
subsequent written instruction. The Authority agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the Authority; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

10.9 Evidence of Compliance with Conditions Precedent. Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Agreement shall include (1) a statement that each Person making such certificate or opinion has read such covenant or condition and the definitions thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such Person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not, in the opinion of such Person, such condition or covenant has been complied with.

IN WITNESS WHEREOF, the Grantors and the Trustee have each hereunto caused their respective corporate names and seals to be affixed and this Agreement to be executed and delivered by and through their duly-authorized officers, all as of the effective day and year first above written.

MUNICIPAL ELECTRIC AUTHORITY
OF GEORGIA

By: 
Name: Robert P. Johnston
Its: President and Chief Executive Officer

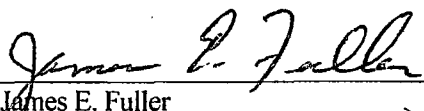
Attest: 
Its: Senior VP and General Counsel

[CORPORATE SEAL]



MEAG POWER SPVJ, LLC
MEAG POWER SPVP, LLC
MEAG POWER SPVM, LLC

By: Municipal Electric Authority of Georgia, the sole
Member of MEAG Power SPVM, LLC, MEAG
Power SPVP, LLC, MEAG Power SPVM, LLC


By: 
Name: James E. Fuller
Its: Senior Vice President, Chief Financial Officer


Attest: 
Its: Senior VP and General Counsel

[CORPORATE SEAL]



THE BANK OF NEW YORK MELLON

By: 
Its: STACEY B. POINDEXTER
VICE PRESIDENT

Attest: 
Its: Vice President

[CORPORATE SEAL]

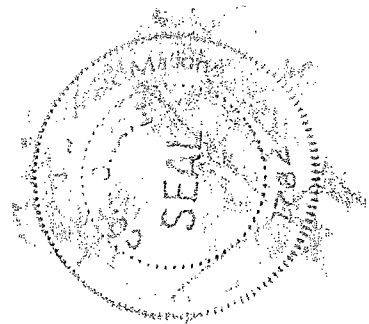


EXHIBIT 1
DISBURSEMENT CERTIFICATE

The Bank of New York Mellon
Attention: Corporate Trust
505 North 20th Street, Suite 950
Birmingham, AL 35203

RE: Amended and Restated Trust Agreement, by and between Municipal Electric Authority of Georgia, MEAG Power SPVJ, LLC, MEAG Power SPVP, LLC, and MEAG Power SPVM, LLC and The Bank of New York Mellon, as Trustee, dated as of _____, 2015

The undersigned hereby certifies pursuant to Section 4.1(a) of the aforementioned Trust Agreement (the "Agreement"):

1. The undersigned is a representative and Authorized Officer of Municipal Electric Authority of Georgia (the "Authority") authorized to give this certificate.

2. Any necessary authorizations of the NRC or any corresponding governmental authority having jurisdiction over the decommissioning of the Unit have been obtained and all requirements of law have been satisfied, except that prior written notice to the NRC [is] [is not] required pursuant to Section 4.3 of the Agreement.

3. None of the Decommissioning Costs described in Schedule 1 attached hereto have previously been made the basis of any certificate pursuant to Section 4.1 of the Agreement.

4. The amounts shown on the schedule attached hereto have been incurred for Decommissioning Costs, as such term is defined in the Agreement, in accordance with the said plans and procedures.

In accordance with Section 4.1(a) of the Agreement, the Authority hereby directs payment of the amounts shown on the schedule attached hereto from the License Termination 50.75 Account and/or Non-License Termination Non-50.75 Account of the Trust(s) to the payees, as indicated on the schedule.

Given this _____ day of _____, _____.

[MUNICIPAL ELECTRIC AUTHORITY OF
GEORGIA], [MEAG POWER SPVJ, LLC],
[MEAG POWER SPVP, LLC], and/or [MEAG
POWER SPVM, LLC]

By: _____
Title: _____

Payee	Payment Details	Schedule 1 Trust	Amount
-------	-----------------	---------------------	--------

EXHIBIT 2
WITHDRAWAL CERTIFICATE

The Bank of New York Mellon
Attention: Corporate Trust
505 North 20th Street, Suite 950
Birmingham, AL 35203

RE: Amended and Restated Trust Agreement, by and between Municipal Electric Authority of Georgia, MEAG Power SPVJ, LLC, MEAG Power SPVP, LLC, and MEAG Power SPVM, LLC and The Bank of New York Mellon, as Trustee, dated as of _____, 2015

The undersigned hereby certifies pursuant to Section 4.1(b) of the aforementioned Trust Agreement (the "Agreement"):

1. The undersigned is a representative and Authorized Officer of Municipal Electric Authority of Georgia (the "Authority") authorized to give this certificate.

2. Any necessary authorizations of the NRC or any corresponding governmental authority having jurisdiction over the decommissioning of the Unit have been obtained and all requirements of law have been satisfied, except that prior written notice to the NRC [is] [is not] required pursuant to Section 4.3 of the Agreement.

3. None of the Decommissioning Costs described in Schedule 1 attached hereto have previously been made the basis of any certificate pursuant to Section 4.1 of the Agreement.

4. The amounts shown on the schedule attached hereto have been actually paid by a Grantor to the third persons shown thereon for Decommissioning Costs, as such term is defined in the Agreement.

In accordance with Section 4.1(b) of the Agreement, the Authority hereby directs payment to the Authority of the amounts shown on the schedule attached hereto from the License Termination 50.75 Account and/or Non-License Termination Non-50.75 Account of the Trust(s) to a Grantor, pursuant to the payment details indicated on the schedule.

Given this _____ day of _____, _____.

[MUNICIPAL ELECTRIC AUTHORITY OF
GEORGIA], [MEAG POWER SPVJ, LLC],
[MEAG POWER SPVP, LLC], and/or [MEAG
POWER SPVM, LLC]

By: _____
Title: _____

Payee	Amount	Schedule Trust	Payment Details for the Grantor
--------------	---------------	---------------------------	--

EXHIBIT 3
TRANSFER CERTIFICATE

The Bank of New York Mellon
Attention: Corporate Trust
505 North 20th Street, Suite 950
Birmingham, AL 35203

RE: Amended and Restated Trust Agreement, by and between Municipal Electric Authority of Georgia, MEAG Power SPVJ, LLC, MEAG Power SPVP, LLC, and MEAG Power SPVM, LLC and The Bank of New York Mellon, as Trustee, dated as of _____, 2015

The undersigned hereby certifies pursuant to Section 4.1(c) of the aforementioned Trust Agreement (the "Agreement"):

1. The undersigned is a representative and Authorized Officer of Municipal Electric Authority of Georgia (the "Authority") authorized to give this certificate.

2. Any necessary authorizations of the NRC or any corresponding governmental authority having jurisdiction over the decommissioning of the Unit have been obtained and all requirements of law have been satisfied, except that prior written notice to the NRC **[is] [is not]** required pursuant to Section 4.3 of the Agreement.

3. **[The amounts shown on Schedule 1 attached hereto should be transferred to the License Termination 50.75 Account specified therein.]**

[None of the amounts described in Schedule 1 attached hereto have previously been made the basis of any certificate pursuant to Section 4.1 of the Agreement.]

4. **The amounts shown on the schedule attached hereto are no longer required to provide for Decommissioning Costs, as such term is defined in the Agreement.]**

In accordance with Section 4.1(c) of the Agreement, the Authority hereby directs payment of the amounts shown on the schedule attached hereto from the Non-License Termination Non-50.75 Account of the Trust(s) to the **[License Termination 50.75 Account] [payees, as indicated on the schedule]**.

Given this ____ day of _____, _____.

[MUNICIPAL ELECTRIC AUTHORITY OF
GEORGIA], [MEAG POWER SPVJ, LLC],
[MEAG POWER SPVP, LLC], and/or [MEAG
POWER SPVM, LLC]

By: _____
Title:

Payee	Amount	Schedule	Trust	Payment Details
--------------	---------------	-----------------	--------------	------------------------

EXHIBIT 4
ASSET/LIABILITY MANAGEMENT POLICY



ASSET/LIABILITY MANAGEMENT POLICY
MUNICIPAL ELECTRIC AUTHORITY OF GEORGIA

As Amended

August 16, 2012

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Asset/Liability Management Policy

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ASSET/LIABILITY MANAGEMENT POLICY

INTRODUCTION

Purpose

The purpose of this Asset/Liability Management Policy (the “Policy”) is to establish a framework to govern the management of the Municipal Electric Authority of Georgia’s (“MEAG Power” or the “Authority”) financial assets and liabilities. The Authority desires to obtain reasonable returns within prudent levels of risk, the lowest possible funding cost related to debt and the optimal management of interest rate risk through the use of derivative instruments. The primary objective of the above is the ability to meet all cash flow requirements and reduce revenue requirements of Participants without exposing the Authority to undue or inappropriate risks.

This Policy and its specific provisions are meant to guide the Authority’s Board of Directors (the “Board”), the Board’s appointed Asset/Liability Committee (the “Committee”), the President and Chief Executive Officer, the Chief Financial Officer, Finance Staff, and external money managers in effectively achieving this purpose through prudent management of Authority funds and through proper monitoring and reporting of financial activities.

This Policy, as approved by the Board upon the recommendation of the Committee, governs the Authority’s investment of funds, issuance and management of debt securities, use of derivative instruments, overall management of interest rate risk and all reporting requirements relating to its financial activities, including:

- guidelines for the investment portfolio that control the level of risk assumed in the portfolio and ensure that assets are managed in accordance with stated objectives;
- a written statement of the expectations and objectives in the investment of Authority assets;
- a written statement of the expectations and objectives in the Authority’s issuance and management of Authority debt;
- guidelines for the use of derivatives instruments;
- requirements for reporting and communication among the Board, the Committee, the President and Chief Executive Officer, the Chief Financial Officer and responsible Finance Staff; and
- criteria to monitor and evaluate performance results.

The use of derivative instruments to hedge natural gas purchase transactions is excluded from the scope of this Policy. The Authority has established a separate Natural Gas Risk Management Policy to deal with the risks associated with hedging natural gas. Since natural gas hedging deals largely with operational issues, the authority and oversight for derivative transactions for natural gas hedging falls under the purview of the Power Supply Committee. The oversight of mark-to-market issues related to the portfolio of gas hedging derivatives will, as with all of the Authority's derivative instruments, fall under the scope of the Committee .

The Board has established this Policy in the exercise of its fiduciary responsibility for guidance of the Committee, the President and Chief Executive Officer, the Chief Financial Officer, Finance Staff and external money managers in the best interests of the Authority, Participants, and bondholders.

The Board of the Authority hereby delegates responsibility for the establishment and oversight of this Policy to a three-member Committee but retains final decision-making responsibility with respect to the Policy.

A. INVESTMENT MANAGEMENT

Scope

The Investment Management section of the Policy applies to investment assets of the Authority, whether managed by Finance Staff or external money managers, except for the assets of employee retirement plans. Such assets include the revenue and operating funds, construction funds, debt service funds, subordinated bond funds, reserve and contingency funds, decommissioning funds and all other funds that may be created from time to time, all of which shall be administered in accordance with the provisions of this Policy.

Authority and Delegation

The ongoing management of internally managed funds, and compliance with the Policy, is the responsibility of management of the Authority, including, specifically, the President and Chief Executive Officer and the Chief Financial Officer, who are collectively responsible for the day-to-day investment of internally managed funds, as well as oversight of external money manager activities.

Only those Investment Managers authorized in writing by the Committee upon recommendation of the Chief Financial Officer in accordance with the Resolution for Transacting Authority Investments may buy, sell, or otherwise transact any business with respect to Authority investment assets.

Investment Managers

Each person officially authorized as an Investment Manager of the Authority or retained as a money manager for the Authority shall be responsible for performing the duties set forth in the Investment Management section of this Policy, including, but not limited to, the following:

- Managing the investment assets of the Authority in accordance with this Policy and objectives expressed herein;
- Exercising investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the current investment strategy and compatible with the investment objectives;
- Immediately informing the Committee and Finance Staff of any significant matters or adverse developments pertaining to the investment of Authority assets, including any material violations of the Policy, along with an explanation of such violation and an action plan and timetable for achieving compliance with the Policy;
- Reporting the investment activities to the appropriate Finance Staff and the Committee in the proper manner and timeframe designated in this Policy; and
- Making recommendations to the Committee for changes to the Policy;

It should be noted that each external money manager is responsible for the investment of its respective funds in compliance with this Policy and that the Authority's staff is responsible for day-to-day oversight. Finance Staff shall periodically review all external money managers' activities for compliance against Policy requirements. Such review should occur at least annually and focus on individual trades as well as overall portfolio composition, diversity, risk and maturity requirements of the Policy.

Regulation

The legal investment of monies is controlled by provisions of state law, including specifically the Official Code of Georgia Annotated Section 46-3-126(9) of the Act of the General Assembly creating the Authority, and the Power Revenue Bond Resolution adopted August 30, 1976, as amended and as amended and restated on September 16, 2004 (the "Power Resolution"), the General Power Revenue Bond Resolution, adopted March 11, 1978 and readopted April 18, 1978, as amended and as amended and restated on September 16, 2004 (the "General Resolution") and the Bond Anticipation Note Resolutions, adopted October 13, 1997 (the BAN Resolutions), the Amended and Restated Combined Cycle Resolution adopted July 18, 2003 (the "Combined Cycle Resolution"), the Amended and Restated Telecommunications Bond

Resolution adopted March 20, 2003 (the "Telecommunications Resolution"), the Plant Vogtle Additional Units Non-PPA Project Bond Resolution adopted October 16, 2008 (Non-PPA), the Plant Vogtle Additional Units PPA Project Bond Resolution adopted October 16, 2008 (PPA) and the Plant Vogtle Additional Units PPA-2 Project Bond Resolution adopted October 16, 2008 (PPA-2) as interpreted from time to time by written legal opinion of General Counsel to the Authority. Accordingly, each of the established funds may have different requirements and restrictions placed upon it by state law, the Power Resolution, the General Resolution, the Combined Cycle Resolution, the Telecommunications Resolution, the Plant Vogtle Additional Units Resolutions, and other applicable resolutions of the Authority, as interpreted from time to time by written opinions of General Counsel.

Objective

The investment objective of the Authority is to preserve and enhance the real inflation-adjusted value of fund assets throughout budgetary and economic cycles, while providing a relatively predictable, stable and consistent stream of cash flows which meet debt service requirements and operational expenses.

Prudence

While the Authority is not subject to the Employee Retirement Income Security Act (ERISA), the standard of prudence to be used by investment officers shall be the same as defined under ERISA's Prudent Man Rule for all funds, except the Decommissioning Trust. The standard of prudence for the Decommissioning Trust shall be the "Prudent Investor" rule required by the Federal Energy Regulatory Commission for Decommissioning Trust.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment personnel acting in accordance with these written policies and procedures and who exercise prudence and due diligence in making an investment, shall be indemnified and relieved of personal responsibility and liability for that investment's risk or market price change.

Ethics

Investment Managers and other Authority employees involved directly or indirectly in the investment process shall refrain from business activity, personally or within any manager's or employee's immediate family, that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Any such employee or Investment Manager shall disclose to the Committee any material financial interests in such institutions that conduct business with the Authority, and shall disclose any personal financial investment positions that could be related to the performance of the investment

portfolio. Any such employee or Investment Manager shall subordinate his personal investment transactions to those of the Authority, particularly with regard to the timing of purchases and sales. This policy is intended to be consistent with, and incorporates the Authority's Ethics Policy.

Internal Control

Management shall establish a system of internal control designed to regulate investment activities of all Authority personnel in order to prevent losses of funds arising from fraud, employee error, misrepresentation by third parties or imprudent actions. Such internal controls will consist of periodic management reporting, detailed operating policies and procedures, documentation and record requirements, compliance audits and a due diligence program, and any other actions or steps which may be deemed necessary. The Risk Management Internal Audit function shall pay particular attention to the application of this section.

Investment Accounting

Securities transactions will be accounted and reported for in accordance with Generally Accepted Accounting Principles ("GAAP"), including Financial Accounting Standards Board ("FASB") pronouncements, the Governmental Accounting Standards Board ("GASB") pronouncements, and all other applicable regulations as may be stipulated by state and federal law, bond resolution and the Policy.

Investment activity should be reconciled, on a monthly basis, with relevant Trustee records, bank statements, external money manager records, or the records of the Authority's third party administrative agent(s) to ensure completeness and accuracy in reporting.

Transfer of Investment Securities

All transfers of investment securities between funds within a project or between projects will be completed based on the current market value of the security as of the date of transfer.

Asset Valuation

It shall be the policy of the Authority to price, at market value, all investment securities and other financial assets each month. Such investment assets will be valued by either a Trustee or independently contracted third party pricing service. Unusual securities which are illiquid may be priced by more than one pricing service at the discretion of the Finance Staff. To the extent proper valuation of any security is unattainable by either of these parties, or a conflict exists in the pricing of such security, a broker of the Authority, experienced in such matters, and independent of the security in question, shall make the final fair pricing assessment.

Management Reporting

Finance Staff shall meet with the Committee periodically and make a written report at least quarterly that summarizes performance, recent market conditions and specific investment strategies employed in the most recent reporting period.

The summary report shall also include information on security holdings, investment maturities, rates of return, risk, market and book values, funds distribution, and other relevant information, including any other information requested by the Committee such as transaction volume by broker/dealer, etc. The report shall explain the total investment return and compare that return with selected performance measurement indices.

Documentation and Records

Responsible Authority staff shall maintain, in a timely manner, accurate and adequate records for all investment activity. Such records shall include, at a minimum, records of all trades/securities transaction tickets, confirmation from the counter-party, monthly investment position statement, safekeeping schedule, and collateral records, as applicable, for each transaction.

Portfolio Composition

To achieve management's investment objectives and to satisfy their fiduciary responsibilities, Authority funds will be managed both internally and by external money managers. Each manager will operate as a single unit within the guidelines of this policy as it relates to the specific type of funds managed. The primary objective of each manager will be to preserve and enhance base capital while providing a stable flow of income to meet liquidity requirements. Individual performance will be measured quarterly on a total return basis and compared to a designated benchmark whose components most closely resemble the policy guidelines for the type of funds managed.

Permitted Investments

Securities acceptable for the investment portfolios of the Authority shall be legal investment securities under applicable laws of the State of Georgia, as amended and as limited by the applicable section of the appropriate bond resolution, trust document or loan agreement as interpreted from time to time by the written opinion of General Counsel. (See *Appendix A*).

Prior to investing in new products or engaging in new investment activities, Finance Staff shall review all relevant information and receive advice from the General Counsel concerning the legality of the proposed activity. Finance Staff shall determine the purpose and fit in relation to the Authority's overall management strategies, accounting treatment, internal controls, risks involved, risk controls and risk monitoring systems, and policies and procedures covering the proposed products or activities. If such products include structured notes, the structured notes

shall have a floating coupon based on a U.S. Dollar denominated index. The maximum acceptable leverage on any structured product shall not exceed 1:1 of the index.

A proposal will then be made to the President and Chief Executive Officer, and the Committee, for approval of the investment product as a permissible investment.

Investment of Bond Proceeds (Escrow)

In the case of a debt refunding requiring the establishment of an escrow fund, the Chief Financial Officer is designated by the Authority to oversee the investment of the funds. The Chief Financial Officer's specific responsibilities include:

- working with the financial advisor, bond counsel, General Counsel and underwriter to determine how the proceeds will be invested;
- ensuring that any fees paid during the process are reasonable;
- understanding arbitrage restrictions related to the funds;
- monitoring the investment and custody of the proceeds; and
- maintaining adequate records to comply with arbitrage rebate requirements.

The Chief Financial Officer will ensure that investment decisions conform: with all legal, statutory, and regulatory requirements; requirements established by trust indenture; and requirements that might be imposed by credit enhancement providers.

The Authority requires that underwriters and financial advisors report on any finder's fees or fee-sharing arrangements related to its debt issuance.

The Chief Financial Officer may invest bond proceeds, when the economics justify, in open market securities. It shall be the responsibility of the Chief Financial Officer to carefully evaluate and avoid any potential conflicts of interest. The Chief Financial Officer shall oversee the investment of any bond proceeds to ensure that the Authority's investments are being purchased at a fair market value. The Authority will not, in any instance, agree to accept reduced or waived management fees in exchange for allowing the underwriter to invest bond proceeds.

Investment of Decommissioning Trust

The Authority may appoint more than one external money manager as an Investment Manager. In addition to providing access to this policy and any amendments, the Authority may also provide overall investment policy to the Trustee or Investment Manager, but it may do so only in

writing and may not serve as investment Manager or otherwise engage in day-to-day management of the fund or mandate individual investment decisions.

The investment of the Decommissioning Trust monies shall be governed by the "Prudent Investor" rule, which the Investment Managers must adhere to. The Decommissioning Trust may be allocated up to 30% in equities, provided that such investments conform to the "Prudent Investor" rule required by the Federal Energy Regulatory Commission.

Equity investments will be limited, subject to the Investment Manager's determination under the "Prudent Investor" rule, to index funds which may include: 70% S&P 500 Index Funds, 15% S&P 400 Midcap Index Funds, 15% Small Cap Index Funds. A Small Cap Value, or Small Cap Growth Manager(s) may be used in lieu of the Small Cap Index Funds.

If Index Funds are used, the Authority will place the funds with a nationally recognized money manager and seek to minimize the fees associated with the investments. If an active investment manager is used in lieu of Index Funds, the Authority will place the funds with a nationally recognized money manager with appropriate experience and knowledge of the relevant investment markets.

At least annually, the Chief Financial Officer shall rebalance assets in accordance with the aforementioned allocations.

Investment Managers for both the S&P 500 and S&P 400 Midcap Index Funds will be expected to at all times adhere to all provisions of the respective Trust Document.

Small Cap assets may be invested in an actively managed commingled fund including the assets of other qualified plans. The manager is expected at all times to adhere to the provisions outlined in the commingled fund's Statement of Characteristics (SOC) in the Revocable Trust Agreement.

Limitations and Diversification

Average investment maturities will be managed to accomplish both liquidity and income objectives. Funds shall be invested in securities which have maturities based upon current cash flow projections to provide for liquidity to make appropriate and timely payments from such funds. The maturity guidelines for the various funds are specified in AppendixA-3.

Investment assets shall be diversified to control the risk of loss resulting from over-concentration of assets in a specific maturity, issuer, instrument, dealer, or bank from which these instruments are bought and sold (See AppendixA-2, A-3, and A-4). Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the appropriate management staff and by the Committee.

Portfolio Strategies

Total Return

The Investment Portfolio will be actively and prudently managed on a total return basis in an effort to enhance both its base value and yield. The use of leverage or investments that are highly sensitive to interest rate changes, such as Principal and Interest-only mortgage securities, are prohibited.

Securities Swaps

Securities swap transactions may be initiated to enhance portfolio investment income and yield, to improve the quality of securities held, or to reposition portfolio investments as a hedge against interest rate changes and market fluctuation.

Spread Trades

Spread trades may be initiated to enhance portfolio income and yield, or to take advantage of yield curve shifts when abnormal spread relationships are present. The total net par amount of both sides of all Spread Trades may not exceed a maximum of 15% of the total cost of any individually managed fund.

Short Sales

Short Sale transactions may be initiated to hedge the portfolio against rising interest rates, or to accommodate the short side of a spread trade. Uncovered Short Sales will be limited to 15% of the total cost of any individually managed fund at any time. All Short Sale positions shall be monitored by staff on a daily basis. Any non-hedging short position that on a mark to market basis has a 16/32nds loss will be closed out.

Securities Lending Program (SLP)

The Policy will address and the Committee will oversee the Securities Lending Program because the underlying subject matter of the SLP is the Authority's investment assets. The collateral and investment securities are to be held in accounts only for the Authority and separate from other program participants. Investment of cash collateral can only be invested in Permitted Investments under this Policy. Further guidelines with respect to Permitted Investments such as any limitations on maturities, ratings or asset classes shall be included in the agreement with the SLP manager and periodically monitored and updated as needed. The collateral requirement will be at least 102% and shall be marked to market daily with any under funding of collateral rebalanced by the end of the next business day. The performance of the provider shall be reviewed at least quarterly.

Reverse Repurchase Agreements

Reverse Repurchase Agreement (Reverse Repo) transactions may be initiated to convert securities to cash for a specified period of time, to cover delivery of specific securities on a short-sale transaction, or to cover the short-sale side of a spread trade. In the instance of securities to cash conversion, the Reverse Repo transaction must represent a less expensive alternative funding source or an arbitrage opportunity. Unless the transaction is done under a Securities Lending Program, the maximum outstanding Reverse Repo balance shall not exceed 25% of the total cost of any individually managed fund. Securities which have been purchased with funds borrowed through a Reverse Repo transaction may not be utilized for further Reverse Repo transactions. All Reverse Repo transactions are limited to a maximum leverage of 1:1. Reverse Repo transactions will be monitored weekly, and the respective Collateral will be appropriately marked to market at least monthly. Open positions will be reported in the monthly financial report. Investment Managers must maintain sufficient liquidity to provide for prospective margin calls at all times.

Collateralization

Collateralization is required for investments in certificates of deposit (with the exception of decommissioning funds), repurchase agreements and reverse repurchase agreements. In order to reduce market risk, the collateralization level will be 102% of market value of principal and accrued interest. The only securities acceptable as collateral shall be securities which are permitted investments of the Authority as specified in this Policy.

In all cases, the collateral shall be held by a third party safekeeping institution or shall be held in the name of both parties by the Federal Reserve. Such collateral shall not be released to the pledgor unless deposits are withdrawn, investments are sold or mature, or the investment is adequately secured by other similar collateral.

Each Investment Manager shall verify that the market value of collateral pledged is sufficient to cover the deposit or investment of funds. Internal staff will independently monitor the pricing on at least a monthly basis or more frequently if market condition dictates.

Deliveries and Safekeeping

Deliveries

All deliveries are to be versus payment, either through a major correspondent bank, the Depository Trust Company or through the Federal Reserve System.

Safekeeping

Securities will be held in safekeeping at the Federal Reserve Bank or the Depository Trust Company unless a major correspondent bank or trust company provides superior specialized

services at a reasonable cost. While safekeeping charges may be paid by account analysis, charges which are a part of such an analysis will be researched in an attempt to avoid unnecessary safekeeping expenses.

External Money Managers

External investment managers will be selected by the following process:

- A customized Request for Proposal will be prepared by the Chief Financial Officer and the Authority's Investment Advisor and distributed to qualified investment managers.
- The Chief Financial Officer and the Authority's Investment Advisor will evaluate and analyze the completed Request for Proposals and interview those firms deemed to be most capable of providing investment management services to the Authority.
- The Chief Financial Officer and the Authority's Investment Advisor will make a detailed written selection recommendation to the Asset/Liability Committee along with a summary of the search process. The Committee will either accept the recommendation of the Chief Financial Officer and Investment Advisor or direct that further steps be taken to ultimately arrive at a decision that the Committee is comfortable with.
- All final selection decisions will be made by the Committee.

Investment Dealers

The qualification and approval process referenced in this section applies to dealer relationships established by the Authority's staff with regard to the internally managed funds. Inquiry of external money managers may be made regarding the dealer approval process and the Chief Financial Officer shall determine that such process maintains the general intent of this section. It is incumbent upon external managers to maintain ethical standards in their approval process and to provide reasonable diversification of business among their dealer relationships.

Dealer Limitation

In all cases the Authority shall have investment relationships with a minimum of five institutions to insure adequate access to investment product, analytical expertise and marketing capabilities.

Dealer Qualification

Prior to any other assessment of a broker/dealer, the Finance Staff will perform a due diligence process. This process includes requesting a copy of the primary Account Representative's Form U-4 from the NASD, obtaining the most recent relevant Broker/Dealer financial statements, and conducting a credit analysis. Through this due diligence process the Finance Staff will:

- Determine that the broker is NASD qualified.
- Determine that the broker has or is guaranteed by a firm with a minimum of \$50 million in net capital.
- Obtain third party evaluation of the firm's credibility if the firm is not a Primary US Government Bond Dealer.
- Obtain and review financial statements to determine stability, performance, and adequacy of material disclosure.

Dealer Evaluation

Upon qualification of a dealer, and when required, the Finance Staff will evaluate through appropriate due diligence the following critical performance areas and grade the candidate accordingly.

- Institutional and broker qualifications as they relate to general and specific product knowledge (i.e., volume, time, education).
- Technical support capabilities as well as operational efficiency of the organization (i.e., support personnel/trade volume, trades/fails).
- Ability to provide value added services (i.e., comprehensive analysis, trade strategy evaluation).
- Broker and dealer historical relationship with the company (i.e., combined years of service, successful trades/unsuccessful trades).
- Pricing competitiveness based on the ability of the dealer to support the "Bid" and "Ask" side of various market instruments.
- Financial strength and security of the dealer (i.e., credit analysis).

Dealer Approval

An approved dealer list will be maintained by the responsible staff of the Authority. Approved dealers will generally consist of primary government securities dealers and other recognizable firms in the general securities business. Upon the evaluation of a prospective dealer, an approval shall be granted or declined based on the final grading. Final approval of any and all dealers is made by the Chief Financial Officer according to qualification and evaluation guidelines, and such approval shall be communicated in writing to the Committee.

Dealer Selection

Upon approval, dealers will be selected based on:

- The need for additional dealers.
- The type of dealer required (i.e., bank, primary, regional.).
- The type of product coverage desired.
- The overall rating of a particular firm.
- The overall qualifications of the assigned broker.

Dealer Replacement

The Authority's Finance Staff shall maintain an inactive list of alternative dealers. Each of these dealers must pass the appropriate qualification requirements, and be appropriately rated. In the event a current dealer or broker changes coverage or firms, each such dealer or broker is required to undergo the qualification and evaluation process again. At that time, such dealer or broker will be reviewed along with alternative dealers, and an appropriate selection will be made. If a current dealer remains inactive for a six-month period, that dealer will be removed from the active list. An alternative dealer may then be chosen in accordance with the procedures set forth in the Policy under the heading "Dealer Selection". An alternative dealer shall be removed from the inactive list if replaced by an appropriate substitute, or if operational changes are made by the dealer which would require re-evaluation.

Electronic Trading Platforms (ETP)

All dealers that are available on the ETP will be allowable dealers in the bidding, provided that the delivery of the security is on a cash versus delivery basis and the dealer is not precluded from doing business with the Authority elsewhere in this Policy. All other trades will be executed only with dealers on the Approved Dealer List.

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Investment Policy - Appendix A-1
Permitted Investment Securities by Issuer and Class

Class & Issuer	Securities
<u>Repurchase Agreements:</u> U.S. Banks Securities Dealers	Overnight Repo Term Repo
<u>Reverse Repurchase Agreements</u> U. S. Banks Securities Dealers	Overnight Reverse Repo Term Reverse Repo
<u>Georgia Local Government Investment Pool (GLGIP):</u>	State Investment Pool
<u>Money Market Funds:</u>	AAA-Rated only. Repurchase Agreements fully collateralized and collateral delivered. Investing in only Treasuries and Agencies as appropriate.
<u>Certificates of Deposit</u>	Collateralized*** FDIC Insured
<u>Bank Notes**</u>	Fixed Floating Rate
<u>Equity Investments**</u>	S&P 500 Index Funds S&P 400 Midcap Index Funds Small Cap Index Funds Small Cap Value Equities Small Cap Growth Equities
<u>Corporate Bonds**</u> Investment Grade	Fixed Variable Rate
<u>Treasuries:</u> U.S. Treasury HUD Direct Obligations of US Government	Bills Notes Bonds Strips Inflation Indexed Notes & Bonds
<u>Agency Debentures:</u> FFCB TLGP (FDIC Insured) TVA FHLB FAMC Maritime Administration FHLMC FICO AID FNMA PEFCO USPS Refcorp SBA US EX-IM Bank FHA	Bullets Callables Floating Rate Discount Notes Strips
<u>Other Corporations or Instrumentalities of the US Government</u>	
<u>Mortgages:</u> FHLMC FNMA GNMA	Balloon Mortgages Mortgage Pools Adjustable Rate

Investment Policy - Appendix A-1
Permitted Investment Securities by Issuer and Class

Class & Issuer	Securities
CMO & REMIC: * FHLMC FNMA GNMA VNMAC AAA Private Label CMOs (Agency Backed)	Mandatory Redemption Bonds VADM (Very Accurately Defined Maturity) PAC (Planned Amortization Class) Sequential Bonds TAC (Targeted Amortization Class) Accrual Bonds Floaters
Commercial Mortgages** AAA – Rated	Fixed Rate Floating Rate
Commercial Mortgage-Backed Securities (CMBS)** AAA – Rated	Fixed Rate Floating Rate
Asset-Backed Securities (ABS)** AAA – Rated	Fixed Rate Floating Rate
Municipal Bonds: **** Public Housing Authorities (U.S. Guaranteed) State Obligations State of Georgia Obligations (includes Political Subdivisions and public authorities created by the legislature)	Fixed Variable Rate Auction Rate

* Treasury personnel will use prudence in managing the risk of **Collateralized Mortgage Obligations** (CMOs). Only CMOs backed by pools of mortgages guaranteed by the full faith and credit of the U.S. Government or an agency thereof will be used.

** Permitted investment in Decommissioning Trust Funds only. The aggregate corporate bond allocation shall have a rating no lower than the single “A” category.

*** Collateralization not required in Decommissioning Funds.

**** As allowable under the terms of the applicable bond resolution(s). If funds are not governed by a bond resolution, then as permitted by applicable Georgia law. Non-MEAG issued municipal bond holdings shall not have a rating below the single “A” category.

State Obligation bond holdings for Power Resolution and General Resolution Accounts shall not have a rating below the “AA” category.

Investment Policy - Appendix A-2

Portfolio Diversification and Security Position

Security Type	Maximum Position for a Given Trust or Resolution Fund Account
<u>Short Term Investments:</u> Repurchase Agreements Georgia Local Government Investment Pool (GLGIP) Money Market Funds Certificates of Deposit	100% 100% 100% 25%***
<u>Treasuries:</u> U.S. Treasury Bills U.S. Treasury Notes U.S. Treasury Strips	100% 100% 20%
<u>Agencies:</u> Discount Notes Bullet Debentures Callable Debentures Floating Rate Debentures* Strips	100% 100% 50% 40% 25%
<u>Municipals:</u>	50%****
<u>M.B.S.:</u> Balloon Product Mortgage Pools Adjustable Rate	30% 30% 30%
<u>Asset-Backed Securities (ABS)**</u>	25%
<u>Commercial Mortgages**</u> Mortgage Pools CMBS	25% 25%
<u>C.M.O.:</u> VADMs, PAC's, Accruals, Mandatory Redemption TAC's, Sequentials, & Other Amort. Z-Bonds Floaters*	40% 20% 5% 10%

Investment Policy - Appendix A-2

Portfolio Diversification and Security Position

Security Type	Maximum Position for a Given Trust or Resolution Fund Account
<u>Equities**</u> Large Cap Index Fund Mid Cap Index Fund Small Cap Index or Managed Funds	<u>30% Maximum Total Position</u> Within Position - 70% Within Position - 15% Within Position - 15%
<u>Corporate Bonds**</u>	60%

* Products issued with U.S. Dollar denominated indices

** Permitted in Decommissioning Trust only

***Except for Decommissioning Trust Securities Lending Program in which up to 100% is allowed

**** 100% is allowable for State of Georgia Obligations (includes Political Subdivisions and Public Authorities created by the Legislature). Other investments not issued by the US Government or one of the approved Government Sponsored Enterprises will be limited by individual issuer to 10% of the total of a given Trust, Resolution Fund Account, or externally-managed portfolio. Securities Lending Repurchase Agreement cash collateral investments will be limited by issuer/counterparty to 35% of holdings.

Investment Policy - Appendix A-3
Maximum Maturity Limitations by Security, Type and Fund
Bond Resolution Accounts

Funds/Accounts	Resolution: Power-GP General-G BAN-B Combined Cycle-C Telecom-T Non-PPA-M PPA-J PPA-2-P	Benchmark Performance Index	Maximum Modified Duration Per Trust, Fund or Account	Maximum Repo Maturity	GLGIP MM-Treasury & Agencies MM-Treasuries	Maximum Treasury/ Agency Municipal Maturity	Maximum Mortgage/ CMO Maturity
Debt Service Fund: Debt Service Account Debt Service Reserve Acct Debt Service Reserve Acct	GP/G/C/T/M/J/P GP/G/ C/M/J/P	S&P-LGIP Citigroup 3-7 yr Citigroup 3-7 yr	.5 years 5 years 8 years	90 days 90 days 90 days	MM-T&A MM-T&A MM-T&A	1 year 7 years 10 years	N/A 7 Years 10 years
Revenue & Operating Fund: Reserve & Operating Acct. Supplemental Power Commercial Paper Fossil Fuel Reserve	GP/G/C/T/M/J/P GP/G/C/M/J/P GP/G GP/G	S&P-LGIP S&P-LGIP S&P-LGIP Citigroup 1-3 yr	.5 year .5 year 1 year 2 years	90 days 90 days 90 days 90 days	MM-T MM-T MM-T MM-T	1 year 1 year 1 year 3 years	1 year 1 year 1 year 3 years
Construction Fund: Revolving Construction Construction-Fund Construction-Sub Bond Fuel Construction Fund Construction Fund-Interest Nuclear Fuel	GP/G/C/M/J/P GP/G/C/T GP/G M/J/P M/J/P GP/G/M/J/P	S&P-LGIP Citigroup 1-3 yr Citigroup 3-7 yr Citigroup 1-3 yr Citigroup 3-7 yr Citigroup 1-3 yr	.5 year 2 years 5 years 3 years 5 years 3 years	90 days 90 days 90 days 90 days 90 days 90 days	MM MM-T&A MM-T&A MM-T&A MM-T&A MM-T&A	1 year 3 years 7 years 5 years 7 years 5 years	N/A N/A 7 years 5 years 7 years N/A
Bond Retirement:	GP/G/C/T/M/J/P	S&P-LGIP	.5 years	90 days	MM-T&A	1 year	N/A
Subordinated Bond Fund: Money Market Bond Debt Service Reserve	GP/G GP/G	S&P-LGIP Citigroup 3-7 yr	.5 years 5 years	90 days 90 days	MM-T&A MM-T&A	1 years 7 years	N/A 7 years
Reserve & Contingency Fund:	GP/G/C/T/M/J/P	Citigroup 3-7 yr	5 years	90 days	MM-T	7 years	7 years

GLGIP

Georgia Local Government Investment Pool

MM-T

Money Market – Treasury

MM-T&A

Money Market – Treasury & Agency

S&P-LGIP

Index is comprised of “local government investment pools” rated AAAM or Aam by Standard & Poor’s and Represent pools that strive to maintain a stable net asset value.

Citigroup 1-3 yr

Citigroup Treasury/Government 1-3 year index

Citigroup 3-7 yr

Citigroup Treasury/Government 3-7 year index

Citigroup 7-10 yr

Citigroup Treasury/Government 7-10 year index

Investment Policy – Appendix A-4
Maximum Maturity Limitations by Security, Type and Fund
Trust Accounts

Funds/Accounts	Trust	Benchmark Performance Index	Maximum Modified Duration Per Trust, Fund or Account	Maximum Repo Maturity	GLGIP MM-Treasury & Agencies MM-Treasuries	Maximum Treasury/ Agency Municipal Corporate* Maturity	Maximum Mortgage/ CMO/ABS*/CMBS* Maturity
Municipal Competitive Trust Investment Portfolio							
Short Term	Trust	S&P-LGIP	.5 years	90 days	GLGIP-MM-T&A	1.5 years***	1.5 years
Intermediate	Trust	Citigroup 3-7 years	5 years	90 days	GLGIP-MM-T&A	10/1/2040***	10/1/2040
Intermediate Tax Restricted	Trust	Citigroup 3-7 years	5 years	90 days	GLGIP-MM-T&A	1/1/2020***	12/31/2018
Intermediate Extended Maturity	Trust	Citigroup 7-10 years	10 years	90 days	GLGIP-MM-T&A	10/1/2040***	10/1/2040
Decommissioning Trust:							
Fixed Income Investment	Trust	Barclays Int. Govt Credit S&P 500	8 years	90 days	GLGIP-MM-T&A	10 years****	30 years**
Large Cap Index Fund*	Trust	S&P 400 Mid Cap	N/A	N/A	N/A	N/A	N/A
Mid Cap Index Fund*	Trust	Russell 2000	N/A	N/A	N/A	N/A	N/A
Small Cap Index/ Managed Funds*	Trust		N/A	N/A	N/A	N/A	N/A
Environmental Facilities Reserve Fund:	Trust	Citigroup 7-10 years	15 years	90 days	GLGIP-MM-T&A	2030	2030

* Permitted Investment in Decommissioning Trust Fund Only

**Not Beyond Scheduled Decommissioning Trust Cash Flow

***For municipal variable rate demand obligations supported as to credit and liquidity by a letter of credit or similar instrument by a commercial bank rated in the three highest rating categories without regard to gradations within a category, the maximum maturity shall be 12/31/2054

****10 year Maturity Restriction is on an effective basis, not a Stated/Legal Final Maturity basis. Stated/legal Final Maturity will not be greater than 30 years or the Scheduled Decommissioning Trust Cash Flow.

Investment Policy - Appendix A-5

Glossary of Terms

Accretion Directed (AD) - Bond that pays principal from specified accretions of accrual bonds. ADs may, in addition, receive principal from the collateral paydowns.

Accrual (Z) - Bond that accretes interest which is added to the outstanding principal balance. This accretion can continue until the bond begins paying principal or until some other event has occurred.

Accrued Interest - The interest that has accumulated since the date of issuance or since the last coupon payment period, but not yet received.

Adverse Development - arising market conditions that contribute to a material mark to market erosion of principal value for an individual security or the portfolio as a whole.

ARM Determined Interest Rate (ARM) - Bond whose interest rate varies according to the changing net pass-through rates paid on the adjustable rate mortgage collateral backing the bonds.

Arbitrage - Profiting from differences in short-term interest rate spreads relating to borrowing versus lending.

Asked Price - The price at which securities are offered to a potential buyer, the price sellers offer to take.

Asset Backed Security (ABS) - A security backed by notes or receivables against assets other than real estate. Examples are autos or credit cards.

Bank Balance - The amount of money that is actually in the bank at any given time.

Bank Notes - An unsecured note issued by a bank. It is a debt security that carries no FDIC insurance.

Basis Point - one one-hundredth of a percent (.01%), used to express yield differentials.

Basis Price - Price expressed in yield to maturity, also known as the annual rate of return on an investment.

Bear Market - A market characterized by a trend of falling security prices.

Bid Price - the price that is offered to an owner to sell a particular security; or to submit a price one is willing to pay for a security.

Block - securities offered and sold in the form of units.

Bond Equivalent Yield - A measurement of the rate of return, expressed as a percentage, on a security sold on a discount basis that assumes actual days to maturity and a 365-day year.

Bull Market - A market characterized by a trend of rising security prices.

Cash Settlement - Delivery and payment for securities on the day the transaction takes place.

Certificate of Deposits - Interest bearing obligations issued by financial institutions evidencing their receipt of a time deposit at a fixed interest rate for a fixed maturity. Usually pays interest at maturity.

Clearing - The process by which credit is received from the collection of checks and wire transfers.

Collected Balance - The amount of money that is actually in the bank and available for use.

Collateral - *Securities* pledged by a financial institution to secure public funds.

Collateralized Mortgage Obligation (CMO) - A security backed by a pool of mortgages. CMOs are usually structured to include several tranches, which allocate interest and principal cash flows between various classes of investors. This Policy permits investment only in the most conservatively structured CMOs, they have not been included in the definition of derivatives.

Commercial Mortgage - A loan that has real estate as collateral and is used for a business venture.

Commercial Mortgage-Backed Security (CMBS) - A type of mortgage-backed security backed by mortgages on commercial rather than residential real estate.

Contra-Party Confirm - Written confirmation from the broker confirming all details of the transaction.

Corporate Bond - A debt obligation issued by a corporation.

Corporate Settlement - Delivery and Payment for securities three business days after the transaction takes place.

Coupon - the annual interest rate on a bond's (or note's) face value that the issuer promises to pay to the bondholder; or the physical certificate attached to a bond evidencing interest due on a payment date.

Delivery Versus Payment (DVP) - Delivery of securities to a designated point (trustee bank or broker) upon receipt of payment for the securities, in the form of a bank wire or check.

Derivative - Any one of a class of securities whose value and performance is based primarily on the expectation of cashflows which are derived through leveraging or depend on specific market occurrences excluding permitted CMOs of the following types: **VADM, PAC, Sequential Bonds, TAC, Accrual Bonds and Floaters.**

Direct Obligation - A security issued by an agency backed by the full faith and credit of the agency (Direct obligations of the U.S. Government are defined as issues of the Treasury Department only).

Discount - the difference between face value and the selling price of an issue for issues selling below par.

Discount Notes - Short term obligations (maturities of one year or less) of an issuing agency.

Fail - A failure to deliver securities on settlement date.

Federal Agricultural Mortgage Corporation (FAMC) Securities - Obligations of the Corporation are used to purchase agricultural loans from mortgage lenders in support domestic agricultural credit markets. Created by Congress, the Federal Agricultural Mortgage Corporation is an instrumentality of the United States.

Federal Credit Bank Securities - Obligations of the Farm Credit System, which is a cooperatively owned nationwide system of banks and associations that provides mortgage loans, short and intermediate term credit to farmers, producers, etc., including rural cooperatives. They are secured obligations of banks operating under federal charter with governmental supervision.

Federal Home Loan Bank Bonds - Obligations of the Federal Home Loan Banks provide credit support to the thrift industry and stabilize the flow of mortgage money to the public. The banks operate under federal charter and government supervision. The banks must maintain secured advances, guaranteed mortgages, U.S. Government securities or cash in an amount equal to the notes and bonds outstanding. They are also authorized to borrow from the Treasury.

Federal Housing Administration (FHA) Securities - Created by Congress, the Administration is an agency of the United States Department of Housing and Urban Development (HUD) and provides mortgage insurance on domestic loans made by FHA-approved lenders. The Administration is largely funded by the income generated from the mortgage insurance premiums.

Federal National Mortgage Association (FNMA) Securities - Obligations of the Association issued to provide funds for home mortgages. The internal revenue service has ruled that **FNMA** is an instrumentality of the U.S.

Financing Corporation (FICO) Securities - Established by Congress as a federally chartered Corporation to fund the recapitalization of the Federal Savings and Loan Insurance Corporation (FSLIC), FICO's debt securities are backed by the United States Government with respect to principal only, not interest or coupon payments.

Floater (FLT) - Bond whose coupon resets periodically based upon a predetermined index. the "floating rate" typically has a cap, floor or both. The coupon varies directly with changes in the index.

Full Faith and Credit - The unconditional guarantee of payment of an obligation by an agency.

Government National Mortgage Association (GNMA) Securities - Obligations of the Association issued to support mortgage programs which could not be carried out in the private market. Because **GNMA** is a wholly owned corporation of the U.S. these securities are backed by the full faith and credit of the U.S.

Hedging - A process of reducing risk by temporarily purchasing or selling an asset to protect the value of an existing asset or portfolio. The purchase of the hedge should serve to neutralize market movements which would cause the value of the original asset to experience dramatic movements.

Idle Monies - Discretionary funds with no currently defined liquidity requirements.

Interest Only (IO) – A class of mortgage-backed security containing only the interest portion of the underlying mortgage payments, which are separated from the principal portion of those same payments.

Inverse Floater (INV) - Bond whose coupon resets periodically (similar to floaters) based on a predetermined index, with an optional floor or cap or both. The coupon varies inversely with changes in the index.

Investment Grade – Description of a bond considered eligible for bank investment. Such Bonds are rated BAA or above by Moody's or BBB or above by Standard & Poor's.

Investment Manager - An individual, or firm, who is authorized by resolution to transact Authority investments.

Investment Portfolio - A collection of securities held by an investor for the purpose of gaining a financial return.

Investment Statement - Statement from the broker confirming all account activity for the month.

Laddering - A portfolio strategy in which assets are distributed evenly over a range of maturities.

Leverage - As applicable, either using borrowed money or an investment with a multiple-based payment dependent on an index or formula.

Liquidity (LIQ) - A **LIQ** bond is intended to qualify as a "liquid asset" for savings institutions. A **LIQ** bond is any agency issued bond that has a 5-year or less stated maturity or any non-agency issued bond that has a 3-year or less stated maturity -- as measured from issued date in each case.

Mandatory Redemption Bond (MR) – A bond that is guaranteed to be redeemed on a specified maturity date as part of a mandatory call.

Margin Call - Demand that a customer deposit enough money or securities to bring a margin account up to the initial margin or minimum maintenance requirements. If a customer fails to respond, securities in the account may be liquidated.

Maritime Administration Securities- The Administration is an agency of the United States Department of Transportation tasked with the support of domestic waterborne transportation and commerce.

Maturity - Date at which the principal becomes due and payable in full to the holder of the security.

Modified Duration - Duration is a measure of a portfolio's exposure to interest rate risk. A higher value implies greater interest rate risk exposure. The expected Modified Duration is calculated as the weighted average time to payment of all expected principal and interest cash-flows, with the weights given by the present value of the cash-flow. Expected cash-flows are determined taking into account sinking fund paydowns, expected mortgage prepayments, and the exercise of any "in-the-money" imbedded put or call options. Modified Duration is defined as equal to the duration divided by 1, plus the current market yield, divided by the number of payments in a year.

Municipal Bonds (General Obligation) - Direct and General obligations of any state provided that at the time of purchase they are rated in either of the two highest rating categories by a nationally recognized rating agency.

Par Amount - The face value of a security, shown on the face of the document in a specific dollar amount, also the amount due at maturity.

Pass Through (PT) - Bond that represents a 100% interest in specific collateral underlying such bond.

Permitted Investment - Any instrument approved for investment purposes by the Official Code of Georgia Annotated, the Power and General Power Revenue Bond Resolutions, and the scope of this Policy.

Planned Amortization Class (PAC) - Bond that pays principal based on a predetermined schedule established for a group of PAC bonds. The principal redemption schedule of the PAC group is derived by amortizing the collateral prepayment speeds. The two speeds are the endpoints for the "structuring PAC range." A PAC group is therefore defined as PAC bonds having the same structuring PAC range. A "Group" can be a single bond class.

PAC-x(yz) - [PAC-1(11) or PAC-1(22)] PAC with cashflow priority numbers relative to other PAC and TAC groups in the deal. Generally, a PAC-1(11) tranche has the highest cashflow priority and the most protection from call and extension risk.

x - the PAC "group" indicated by the issuer on the prospectus.

- y - the first number of the sub-type indicates the relative position in which the bond's **PAC** group will receive principal up to its **PAC** schedule(s), as determined by Bloomberg. A tranche with a "1" in the first position has the highest priority to meet its cashflow schedule when prepayments decline and less cash is available for distribution. This provides protection from extension risk. Tranches with a "2" in the first position will receive cash only after tranches with a "1" in this position have met their **PAC** schedule. The LOWER the number, the HIGHER the cashflow priority of the tranche or group in the deal.
- z - the second number of the sub-type indicates the relative position, starting from the last bond group and moving in reverse order, in which the bond's **PAC** group will receive principal in excess of the amount stated in the **PAC** schedule, as determined by Bloomberg. A tranche with a "1" in the second position will receive cash AFTER tranches with higher numbers in this position when prepayments accelerate and more cash is available for distribution. This provides protection against call risk. Tranches with a "2" in the second position will receive cash BEFORE tranches with a "1" in the second position when prepayments increase and the deal must distribute unscheduled principal. The HIGHER the number, the LOWER the cashflow priority of the tranche or group in the deal.

Pledged Securities - *Securities* owned by a financial institution, which are pledged as collateral for public deposits.

Portfolio - See *Investment Portfolio*.

Premium - The purchase of a security in which the price paid exceeds the face value; or the amount by which a security's market price exceeds its face value.

Principal Amount - The face or par value of an instrument that does not include any interest.

Principal Only (PO) - A class of mortgage-backed security which is secured by principal payments stripped from underlying mortgages.

Private Export Funding Corporation (PEFCO) Securities - Created with the support of the United States Treasury Department as a private corporation to assist in the financing of U.S. exports, the Corporation's obligations are guaranteed by the Export-Import Bank of the United States of America, an agency of the U.S. Government. Obligations of the Export-Import Bank are in turn guaranteed by the full faith and credit of the U.S. Government.

Prudent Expert - An individual who has proven in-depth knowledge of technical and fundamental factors affecting all relevant areas of investment activities.

Public Securities Association (PSA) Standard Prepayment Model - Industry standard for measuring prepayment speeds. Measures mortgage prepayment speeds based upon an assumption that prepayment of mortgages increases gradually over the first 30 months.

Quote - the offer to buy or to sell a security at a particular price.

Refcorp Strips - bonds issued by the Refunding Corporation, a financing arm for troubled Savings & Loans. Principal payments are guaranteed by the U.S. Government, interest payments are not.

Regular Settlement - Delivery and payment for securities the business day after the transaction takes place.

Receipt Date. The date the transaction is handled.

Repurchase Agreement - Sale of a security usually U.S. Governments, with the simultaneous commitment by the seller that, after a stated period of time, he will repurchase the security plus pay an agreed upon rate of interest.

Reverse Repurchase Agreement - A money market lending transaction; the mirror image of a *Repurchase Agreement*.

Roll Over - Reinvesting principal or accrued interest or both from a matured investment.

Safekeeping - A service offered by financial institutions in which investments are held on the institution's premises (such as in a vault) for protection.

Safekeeping Schedule - Document from the safekeeping agent confirming the inventory and transfer of securities.

Scheduled (SCH) - Bond that pays principal based on a predetermined schedule, but does not fit the definition of a **PAC** or **TAC**. Generally, scheduled tranches have a prepayment collar that is too narrow to be called a **PAC**.

SCH(yz) - [SCH(22), SCH(33)] Scheduled tranche with cashflow priority numbers relative to the other **PAC**, **TAC** or **SCH** groups in the deal. For a description of the cashflow priority numbers see Planned Amortization Class (**PAC**).

Securities - Documents that can be traded for value; instruments of ownership or debt used to finance government and corporate entities.

Securities Swap - The simultaneous purchase and sale of similar quality securities.

Securities Transaction Ticket - Document evidencing all relevant information relating to an investment transaction.

Selection Guidelines - The set criteria used to evaluate a securities dealer.

Sequential Pay (SEQ) - Bond that starts to pay principal when classes with an earlier priority have paid to zero. **SEQ** bonds enjoy uninterrupted payment of principal until paid to zero balance. **SEQ** bonds may share principal paydown on a pro-rata basis with another class.

Settlement Date - The Date on which a trade is cleared (completed) by delivery of securities for the payment of funds.

Short Sale - To execute the sale of a specific security prior to its purchase.

Small Business Administration (SBA) Securities - The SBA is an independent agency and instrumentality of the U.S. Government tasked with providing aid and economic development to domestic small business concerns.

Soft Bullet Maturity (SB) - Asset backed securities bonds that have collection periods which are structured, but not guaranteed, so that the last scheduled deposit to the principal funding account coincides with the expected maturity date of the bonds.

Spread - The difference between the amount paid when a security is bought and the amount received when the security is sold; the difference between two prices or two rates.

Spread Trade - A trade that weights mismatched maturities on both a long and short position.

Structured Note - A customized security whose interest and/or principal is linked to the value of an underlying asset or index by a formula.

Support (SUP) - Bonds that receive principal payments after scheduled payments have been made on some or all **PAC**, **TAC**, and/or **SCH** bonds for each payment date.

Target Amortization Class (TAC) - Bond that pays principal based upon a predetermined schedule which is derived by amortizing the collateral based on a single prepayment rate.

TAC(yz) - [TAC(11), TAC(22)] Targeted Amortization Class with cashflow priority numbers relative to other **PAC**, **TAC**, or **SCH** groups in the deal. For a description of the cashflow priority numbers, see Planned Amortization Class.

Temporary Liquidity Guarantee Program (TLGP) Securities - The Temporary Liquidity Guarantee Program was instituted by the FDIC in 2008 in response to a worldwide credit crisis. The program was designed to foster banking system liquidity by guaranteeing the senior unsecured debt obligations of banks, thrifts, and certain bank holding companies, and by providing full FDIC insurance coverage for non-interest bearing deposit transaction accounts. Securities issued under the program are fully guaranteed by the FDIC with respect to principal and interest. The FDIC guarantee is backed by the full faith and credit of the US Government.

Tennessee Valley Authority (TVA) Securities - Established by Congress as a federal corporation, the Authority is an agency and instrumentality of the U.S. Government and a regional development agency and public power company.

Total Return - Earned yield based on amortization, accretion, interest income and trading gains and losses.

Timely Manner - Within 30 business days of adverse developments.

Trade Blotter - Document used to record the details of trading activity at the time of execution.

Trade Date - The date on which a transaction is agreed upon.

Trader - An individual or a representative who buys and sells securities.

Tranche - A class of bonds in a **CMO** offering which shares the same characteristics.

Treasury Bills - Direct obligations of the U.S. that mature in one year or less. They are issued on a discount basis. That is, they are sold at a dollar price less than their par value. The difference is recognized as interest.

Treasury Notes - Direct obligations of the U.S. issued with original maturities of between two and ten years. They are issued on a coupon basis and pay interest semi-annually.

Treasury Strips - Acronym for Separate Trading of Registered Interest and Principal of Securities. STRIPS are coupon and interest payments that have been separated from U.S. Treasury notes and bonds.

United States Aid for International Development (AID) Securities - Obligations of the Agency of International Development, an agency of the United States State Department. AID is an independent agency that provides economic, development, and humanitarian assistance around the world in support of the foreign policy goals of the United States. Its securities carry the full faith and credit guarantee of the US Government.

United States Export-Import Bank (US EX-IM BANK) Securities - The Bank is an independent agency wholly-owned by the United States of America, and functions as the official export credit agency of the United States. Its obligations are backed by the full faith and credit of the U.S. Government.

United States Postal Service (USPS) Securities - The United States Postal Service is an independent establishment of the executive branch of the United States of America.

Very Accurately Defined Maturity (VADM)s - Bonds that guarantee protection against average life variability by having less cash flow timing uncertainty than the underlying collateral. VADM)s have predictable performance in all market environments.

Yield - The rate of annual income or return on an investment expressed as a percentage.

Yield Curve - A graph showing the relationship at any given point in time between yield and current maturity.

Yield to Maturity - The rate of return yielded by a debt security held to maturity when both interest payments and the investor's capital gain or loss on the security are taken into account.

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B. DEBT MANAGEMENT

Scope

The debt management section of the Policy applies to all debt currently outstanding and future debt issued by the Authority.

Objectives

The Authority's debt shall be managed with the objective of obtaining the lowest possible long-term funding cost and reduction of risk through diversification of exposures in order to respond to unforeseen events or changes in the financial markets. The Authority will strive to develop, on an ongoing basis, an optimal capital structure resulting in the lowest interest costs taking into consideration the amount and types of fixed and variable rate debt given the Authority's risk tolerance to market fluctuations, capital market outlook, future capital needs, credit, rating agency considerations and tax implications. Diversification in the providers of liquidity, credit support, remarketing agents and bond insurance will be used to the extent possible in order to prevent a single firm negatively impacting the Authority's operations or cost structure.

Capital Structure and Goals

The Authority's capital structure may consist of fixed and variable rate debt in traditional or synthetic form, along with hedging instruments such as interest rate swaps, caps and collars. The capital structure will be managed to achieve the following goals:

- Maintain low cost of capital relative to other electric utilities in the region
- Maintain diversification of debt
- Reduce exposure to put risk on publicly traded variable rate debt
- Diversification of exposures and risks, including but not limited to counterparties, credit providers, insurers, terms and timing of contracts
- Budgetary predictability for the Participants
- Maintain ongoing and uninterrupted access to capital markets to retain the ability to modify the debt structure and/or fund short-term capital outlays in a short timeframe
- Maintain flexibility in the amount of variable rate exposure to react to changing interest rates

Credit Facilities

The Authority will obtain and keep in place at all times at least one immediately available source of funding, such as a line of credit from a commercial bank. This source of funding should provide MEAG Power with adequate liquidity to respond to unforeseen events. MEAG Power will not enter into a credit agreement with a commercial bank rated lower than the "A" category unless approved by the Committee and Board. Exposures to a single counterparty should be limited to a maximum of \$500 million, unless authorized by the Committee.

Diversification

The Authority shall monitor and manage the exposures and risks of the debt portfolio in order to minimize any potential negative impact of an adverse change in market conditions. While it is impossible to fully insulate the Authority from changes in market conditions, areas that the Authority will diversify include:

- Remarketing Agents
- Credit providers
- Bond Insurers
- Debt structures (type, maturities, calls, etc)
- Terms (contract language, collateral provisions, etc.)
- Rollover dates (LOC expirations, contracts, etc.)
- Rate resets on variable rate debt

Issuance Guidelines

Selection and Managing Method of Sale

The Authority's policy is to sell debt to the public using the method of sale expected to achieve the best result, taking into consideration short-term and long-term implications. However, there is a divergence of views as to the merits of the competitive and negotiated methods of sale due to lack of comprehensive, empirical evidence that favors one method over the other. The following section of this policy is intended to ensure that the most appropriate method of sale is selected in light of financial, market, transaction-specific and issuer conditions.

Competitive method of sale should be considered when the following conditions are present:

- The Authority has been a stable and regular borrower in the public market.
- There is an active secondary market for the Authority's debt.
- The Authority has an unencumbered credit rating of A or above.
- The issue is neither too large to be absorbed by the market or too small to attract investors.

- The issue is not composed of complex or innovative features (e.g., a refunding issue).
- The debt and credit markets are stable with large, constant and diverse investor participation.
- Interest rates are stable, market demand is strong and the market is able to absorb reasonable levels of buying and selling with reasonable price reliability.

If conditions for a competitive bond sale are not available then the following practice will apply to negotiated bond sales:

- A competitive underwriter-selection process will be performed that ensures that multiple proposals are considered. Exceptions to this requirement may be authorized by the CEO and Board as market conditions dictate.
- The Authority's Finance Staff and advisors will remain actively involved in each step of the negotiation and sale processes to uphold the public trust.
- The Authority's Finance Staff and financial advisor, who are familiar with and abreast of the condition of the municipal market will assist in structuring the issue, pricing of the bonds, and the closing of the issuance.
- The financial advisor will not serve as underwriter of an issue.

The Authority will require that financial professionals disclose the name(s) of any person or firm compensated to promote the selection of the underwriter; any existing or planned arrangements between outside professionals to share tasks, responsibilities and fees; the name(s) of any person or firm with whom the sharing is proposed; and the method used to calculate the fees to be earned.

Pricing a Negotiated Sale

One of the most important outcomes of a bond sale, the cost of borrowing, is established through the pricing process. Unlike a competitive sale, bond pricing in a negotiated sale requires a much greater degree of issuer involvement. The issuer negotiates both the yield on the bonds and the underwriters' compensation, which includes the takedown (or sales commission), management fee, underwriting risk, and expenses.

It is the Authority's policy to strive for the best balance between the yield for each maturity and the takedown (sales commission) to achieve the lowest overall cost of financing. The following actions by the Authority's staff and its advisors are recommended in the pricing process:

- Take steps during the underwriter selection process and prior to final pricing to manage the compensation to underwriters.
 - including a provision in the request for proposal that requires respondents to indicate the range of costs for each component of compensation and specify an expected maximum for each;

- setting a cap on management fees or expenses;
 - reviewing the amount of underwriters' compensation paid by the issuer for previous sales; and
 - reviewing the amount of underwriters' compensation paid by similar issuers on recent sales.
- Develop an understanding of prevailing market conditions, evaluate key economic and financial indicators, and assess how these indicators likely will affect the outcome of the pricing. Among the types of information that will be helpful are:
 - the supply and expected demand for municipal bonds;
 - release of key economic indicators, actual or anticipated actions by regulatory or political bodies and other factors that might affect the capital markets;
 - interest rates and current market yields of recently priced and outstanding bonds with similar characteristics; and
 - interest rates for bonds with similar characteristics provided by independent services that track pricing performances.
- Work with the underwriter to develop an appropriate pre-marketing effort to gauge and build investor interest.
- Request that the senior managing underwriter propose a consensus pricing scale on the day prior to the pricing that represents the individual views of the members of the underwriting syndicate.
- Evaluate carefully whether structural features that reduce the true interest cost (TIC) of a bond offering, but limit future flexibility in managing the debt portfolio, will result in greater overall borrowing costs over time.
- Give clear directions to underwriters on how bonds should be allocated, consider how policy goals influence the pricing process, and review the Agreement Among Underwriters prior to the sale to ensure that it incorporates the issuer's goals.
- Approve all information that will be sent out by the underwriter on the preliminary pricing wire, including the allocation of bonds and the takedown.

Be present in the offices of the lead manager, if possible, when the bonds are sold since instantaneous market information is available regarding the pricing, bond allocations among the underwriters can be influenced, and issuer presence may serve as a catalyst to improve the overall marketing effort.

- Evaluate the bond sale after its completion to assess the level of up-front costs of issuance, including whether the underwriters' compensation was fair given the level of effort and market conditions; the pricing of the bonds, both in terms of the overall true interest costs and on a maturity-by-maturity basis; and the distribution of bonds and sales credits.
- Develop a database with information on each issue sold with regard to pricing performance including the types of bonds sold, call features, credit rating, maturities, yield and takedown by maturity, and the true interest costs.

Payment of the Expense Component of Underwriter Discount

When using the negotiated method of sale for tax-exempt bonds, the underwriter's compensation consists of various costs incurred by the underwriter on behalf of the issuer. To insure that these expenses are reasonable and explicitly identified, the Authority's policy is to:

- Require firms proposing to serve as senior managing underwriters to present an itemized list of expenses that they expect to incur.
- Require staff to convey clearly to the firm selected as senior managing underwriter, the expenses that the issuer regards as legitimate and those that the issuer does not view as reasonable. Among the expenses that may be regarded as legitimate are:
 - compensation for underwriters' counsel;
 - travel to and from the issuer's offices;
 - Dalcomp/Dalnet fees for transmitting information on interest rates, takedowns, and priority of orders;
 - interest/day loan costs;
 - charges for communication, including the rating agency presentation, mailing, printing, and telephone expenses;
 - documented clearing charges; and
 - closing costs.
- Require staff to pay particular attention to fees for underwriters' counsel and consider setting a cap on fees paid to underwriters' counsel.
- Require the senior managing underwriter to explicitly document all expenses incurred on behalf of the issuer in a negotiated sale, as well as any expenses charged to members of the underwriting syndicate. The senior managing underwriter should explain any expenses not included in the original proposal.

General Structural Guidelines for Issuance of Debt

The following guidelines should govern the issuance of new money financing:

- The maturities of debt should be equal to or less than the useful economic life of the project financed.

- Where practicable the debt service structure on new money financing should utilize level debt service payments, and if economically feasible, level principal payments.
- Use of credit enhancement should be evaluated on a maturity-by-maturity basis and only used where the economic benefits exceed the costs.
- In addition, aggressive call features are preferred and should be analyzed closely.
- The decision to issue fixed or variable rate debt is largely dependent on the current interest rate cycle, the absolute level of rates, the shape of the yield curve, the capital structure and construction funding requirements and changing tax law.

Fixed Rate Debt

Type

Fixed rate debt will consist of traditional fixed rate debt and synthetic fixed rate debt as authorized by the Resolution of the Board and recommended by the Finance Staff and the Authority's Financial Advisor. Permissible types of fixed-rate debt are limited to Current Interest Bonds ("CIBs"), Capital Appreciation Bonds ("CABs"), Build America Bonds ("BABs"), and zero-coupon bonds. Additional types of fixed-rate debt may be utilized upon the review and recommendation of Finance Staff with the approval of the Board.

Refunding Guidelines

- As a general guideline refunding transactions should be effected based on achieving present value savings for each maturity being refunded based on the minimum present value targets as noted on the following table.

<u>Number of Years Between Call Date and Maturity</u>	<u>Individual Maturity of Each Bond's Present Value Savings</u>
More than 10 years	5.0%
7-10 years	4.0%
4-6 years	3.0%
2-3 years	2.0%
Less than 2 years	1.0%

- As a general guideline the net present value savings on each series of bonds being issued should be at least equal to 5% of the refunded principal amount; and the net present value savings must be at least two times the cost of issuance.
- The savings targets described in the two bullet points above do not apply to refundings of variable rate debt with fixed rate debt.
- Increase flexibility relative to call provisions in structuring of refunding debt with aggressive call provisions where economic benefits warrant.

- The Chief Financial Officer with the advise and concurrence of the Authority's Financial Advisor may authorize including refunding bond candidates or series of bonds in a refunding transaction which fall below the Refunding Guidelines noted above in situations where it is in the best interest of the Authority given the terms and conditions of the refunded bonds and the economics of the particular transaction under consideration. Staff will report to the Committee in situations where bonds or series of bonds have been included in a refunding transaction which fall below the above noted guidelines.

Variable Rate Debt

Variable rate debt in traditional and synthetic form is a valuable component of the Authority's capital structure and with prudent use variable rate debt can increase financial flexibility and reduce interest costs resulting in an improvement of total credit quality. However, traditional publicly traded variable rate debt has certain risks relative to remarketing and liquidity risk which limit the percentage of capital which is prudent to maintain in this form from a credit perspective. Additionally, interest rate risk associated with both traditional and synthetic variable rate debt should be structured appropriately to provide the cost benefits of this type of financing within appropriate risk tolerances.

Permissible types of variable-rate debt are limited to the following:

- Commercial Paper ("CP")
- Money Market Municipal Bonds
- Variable Rate Demand Obligations/Bonds/Notes ("VRDOs", "VRDBs" or "VRDNs")
- Auction Rate Securities ("ARS")
- Indexed Floaters
- CPI Index Floaters ("CPI Floaters")
- Build America Bonds ("BABs")

Additional types of variable-rate debt may be utilized upon the review and recommendation of Finance Staff with the approval of the Board.

Calculation of Variable Interest Rate Debt Ratio and Net Floating Interest Rate Exposure Ratio

The Finance Staff will calculate on a quarterly basis and periodically report to the Committee the Variable Interest Rate Debt Ratio and Net Floating Interest Rate Exposure Ratio.

The Variable Interest Rate Debt Ratio is defined as the variable rate debt of the Authority divided by the total Authority debt on the last 20 of the reporting period. For purposes of this calculation, variable rate debt is not offset by floating rate assets and interest rate swaps. The total Authority Variable Interest Rate Debt Ratio shall not exceed 35% unless specifically approved by the Board.

The Net Floating Interest Rate Exposure Ratio will be calculated by aggregating the Authority's short-term variable rate assets and short-term floating rate debt, making an adjustment for the interest rate swaps and tax adjustment necessary to arrive at a net floating rate asset or liability position reflected as a percentage of total debt. For purposes of this calculation only variable interest rate assets and variable rate debt that impact the Participant Annual System Budget will be included. The Net Floating Interest Rate Exposure Ratio will not exceed plus or minus 20% of total debt.

The amount of net variable interest rate exposure maintained shall be based on the following factors:

- **Interest Rates.** The absolute level of interest rates, the direction that interest rates are moving and the shape of the yield curve are all factors in managing the amount of net variable rate exposure. If fixed rates are *high* and the yield curve is *steep*, more net variable interest rate liability exposure may be desirable. Conversely, if interest rates are *low* and the yield curve is *flat*, more variable interest rate asset exposure may be desirable.
- **Capital Structure and Construction Funding.** Variable rate debt is a very efficient way to fund new construction requirements. Additionally, variable rate debt adds flexibility for capital structure changes like accelerating the paydown of generation debt.
- **Market Conditions.** The existing and anticipated market conditions may indicate a need for a larger or smaller amount of variable rate debt than is currently utilized.

Interest Rate Swaps and Caps

Utilizing interest rate swaps and interest rate caps to achieve substantially lower interest costs is a component in building the desired capital structure to allow the Authority to compete effectively.

The Committee members shall receive quarterly performance reports regarding the status of outstanding Interest Rate Swaps and Caps.

Reporting

On an annual basis, the Committee shall receive a summary report of the debt portfolio. The report shall include information on the following:

- Bonds outstanding by type and structure
- Projected Debt Service
- Credit ratings of financial counterparties

Monitoring

MEAG has various requirements and obligations to bondholders and counterparties based upon the outstanding debt resolutions, trust documents, and loan agreements. Finance Staff will monitor the funding levels where appropriate to ensure the proper funding at the prescribed time periods. In addition, MEAG will maintain a list of the requirements under each bond resolution, trust document, and loan agreement and ensure the compliance with each provision.

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C. FINANCIAL DERIVATIVES

General Risk Management Considerations

The Authority's Philosophy Toward Risk

The Authority recognizes that certain risks are incidental to normal business operations. However, it is the general philosophy of the Authority to avoid unnecessary risk and to limit to the extent practicable any risks associated with business activities while retaining financial flexibility. Taking any risk unrelated to normal business activities of the Authority is considered inappropriate and is not authorized by this policy. The attitude which officers and employees of the Authority have toward risk is expected to be consistent with Authority philosophy.

Expectations of the Authority's Management

The President and Chief Executive Officer, the Chief Financial Officer, and the Finance Staff are expected to limit business risks to acceptable levels established by the Committee.

The President and Chief Executive Officer, the Chief Financial Officer, and the Finance Staff, unless specifically approved under this policy, may not engage in activities that expose the Authority to Speculative Risk.

Authority management is expected to understand fully the extent to which their decisions and actions expose the Authority to risk. Any activities that are not related to normal business activities of the Authority or that have the effect or potential of increasing risk generally should be avoided. Activities that are not clear and may be interpreted by some as having the effect or potential of increasing risk must be specifically approved by the Board.

Outside Funds Management

Outside Fund Managers are not authorized to execute derivative transactions without prior written approval from the Chief Financial Officer. Such approval to be given must be based upon the considerations set forth in this section.

Risk Management Activities

Risk Identification

The Board, the Committee, the President and Chief Executive Officer, the Chief Financial Officer, and the Finance Staff are responsible for identifying, assessing and managing business risk associated with management of the investment, debt and derivative portfolios. The Committee is charged with the responsibility of insuring that procedures are in place to identify and assess all risk exposures to the Authority and to manage those exposures within tolerable limits. Business exposures include, but are not limited to, the following:

- Net interest rate risk inherent in maintaining the Authority's investment, debt and derivative portfolios
- Market risks included in the Authority's securities portfolio

Risk Management

Market risks that can be managed should be assessed at least monthly and more frequently, if necessary, in response to significant market movements and to changes in activities that expose the Authority to risk.

A sensitivity analysis or “stress test” shall be performed prior to execution of derivative financial instruments to understand and evaluate the effects of potential significant market movements. Such analysis should assess the impact of possible interest rate movements in varying market conditions as specified by Finance Staff with the advice of the Authority’s Financial Advisor.

Risk Management Objectives

The purpose of this policy is to ensure that business exposure to risks that have been identified and measured and are capable of being controlled are minimized using the most effective and efficient methods to eliminate, reduce or transfer such exposures. Operating decisions should be made with consideration of associated risks and consideration toward structuring transactions to avoid unnecessary risk whenever possible.

Interest Rate Risk

Management should attempt to issue and manage debt at the lowest all-in cost. The debt portfolio should be maintained with fixed and variable assets and liabilities within parameters as determined by the Committee from time to time in accordance with the provisions of this Policy. In establishing the amount of net floating interest rate exposure, staff should consider the extent to which the exposure to interest rate changes is exacerbated or diminished by interest earning assets held by the Authority. The Committee also may decide to give more weight to the effect on cash flow from potential changes in interest rates than on the changes in the market value of the portfolio.

Speculative Activities

The Board, from time to time, may authorize transactions that do not qualify for hedge or deferral accounting. Prior to execution of any such transaction, specific recommendations in writing must be made by the Committee. Such transactions will be subject to the remaining provisions of this policy.

Considerations for the Use of Derivatives

General Objectives for Use of Derivatives

Use of derivative financial instruments (“derivatives”) should be consistent with the overall business and risk management objectives of the Authority. Derivatives may be used to decrease business risks within limits specified by this policy. Derivatives can be used to reduce exposures that have been identified through the risk identification and measurement processes, providing they qualify clearly as “hedging” activities as defined in this policy. The use of derivatives is not automatic, nor is it necessarily the only response to managing business risk and is permitted only after the risks that have been identified are determined to exceed tolerance levels established by

this policy and are considered to be unavoidable because they are necessary or in support of normal business activities.

The use of derivatives exposes the Authority to new types of risk. Derivative risks should be evaluated against the exposures they are expected to modify. The use of derivatives also exposes the Authority to other types of risk, including credit, liquidity, settlement, legal and systemic. The use of derivatives should be assessed against these additional risks and such use is permitted only to the extent that the expected benefit of use is considered to outweigh these risks.

In some instances, it may not be clear how the derivative activity affects risk or what type of risk is affected. Such activity generally is not permitted by this policy because it may have the effect of increasing risk to the Authority. However, to the extent that management believes that such an activity involving use of derivatives is appropriate and consistent with overall business objectives of the Authority, use of derivatives for such activity is permissible only if management documents that the business purpose for the activity is consistent with general business objectives of the Authority. It is the Chief Financial Officer's responsibility to document and obtain specific approval from the Board of Directors and Committee with respect to transactions that result in the Authority's Variable Interest Rate Debt Ratio and Net Floating Interest Rate Exposure Ratio exceeding the prescribed allowable levels as set forth in the Debt Management section of this Policy.

Specific Objectives for Use of Derivatives

The Net Floating Interest Rate Exposure of the Authority may be adjusted as necessary from variable to fixed or fixed to variable using derivative instruments, providing such adjustments move the Net Floating Interest Rate Exposure Ratio within the parameters set forth in the Debt Management section of this Policy. Such transactions are authorized by this Policy provided they are approved in accordance with the Authority's swap resolution as then in effect and are within the prescribed parameters set forth herein and the details of such transactions are reported to the Board at its next meeting.

Types of Derivatives Permissible for Use

The types of derivatives permissible to use as hedges under the Policy include:

- Swaps
- Caps
- Floors
- Collars
- Any combination of the above, such as a swaption

Additional types of derivatives may be utilized when the structure has been reviewed and recommended by Finance Staff and approved by the Committee or Board.

Prohibitions Regarding the Use of Derivatives

General

Unless specifically approved by the Board and Committee, derivatives cannot be used for activities that have the effect of increasing risks to the Authority. Accordingly, they should not be used for trading or speculation. Derivative activities are considered speculative if they increase risk, if their use has no relation to objectives specified by the policy, or if their use is not intended or expected to reduce business risk.

Unusual and Complex Transactions

Derivative instruments can become extremely complex when combinations of components and unusual features are embedded in a single instrument. Complex instruments are more difficult to evaluate from an economic perspective and from an accounting perspective. Transactions and strategies should not be mysterious. The operation of any unusual features, such as a complex formula for determining settlements, must be understood. The necessity for combining such features should be evaluated to ensure that there are valid business reasons for the combination that are consistent with the policy. In some instances, the fair value of complex derivatives is difficult to obtain or cannot be objectively verified. In such instances, it is difficult to fully understand how effective they will be in accomplishing their objectives. Complex derivative transactions are generally prohibited by this policy if they cannot be readily valued and determined to be effective in reducing risk.

Leverage

Derivative transactions are considered to be highly leveraged if they expose the Authority to losses in excess of gains expected to be generated by the positions and transactions they modify. The use of highly leveraged derivatives is prohibited under this policy, as they do not reduce risk. Although only the excess leverage exposes the Authority to loss, there generally is no valid business reason for their use that is consistent with risk management objectives of this policy.

Valuation

Use of any derivative is specifically prohibited if a market quotation (from a broker/dealer other than the counterparty) cannot be obtained for it, or it cannot be valued reliably by Finance Staff or the Authority's Financial Advisor using generally accepted option pricing models (i.e., Black-Scholes or Cox-Ross-Rubinstein models).

Generally Accepted Accounting Principals ("GAAP") Accounting

The Authority's hedging activities will adhere to GAAP. Use of derivatives that do not qualify for hedge accounting or deferral accounting under GAAP is prohibited unless approval is obtained from the Board and the Committee.

Accounting Motivated Transactions

Derivative transactions that are primarily motivated by accounting implications and do not reduce economic risk exposure are considered to be inappropriate and are prohibited by this policy. Derivative transactions are considered to be accounting motivated transactions if they result in the current recognition of revenue or current reduction of cost as a result of incurring a liability to be recognized in the future or taking a risk to be determined and settled in the future. For example, sometimes the motivation for writing options is to recognize the premium in income over the option period as a means of reducing hedging cost or simply enhancing revenues. When such written options are accounted for on an accrual accounting basis, they often have the effect of increasing income currently in the form of premium recognition at the risk of incurring a much higher cost if the option is exercised in the future when the market has moved unfavorably to the writer of the option.

Use of derivatives solely to manage accounting earnings is prohibited. Derivative transactions are unauthorized if the intention of the transaction is to recognize a profit by closing out, modifying, terminating or offsetting the derivative instrument, even if the transaction would otherwise meet the requirements for use under this policy.

Operating Limitations on Use of Derivatives

Forecasted Transactions

Forecasted transactions that are not expected to occur within one year generally are not considered to be probable of occurring under this policy. Use of derivatives to hedge such forecasted transactions is not authorized unless specific written approval is obtained from the Board.

Maturity of Derivatives

All derivatives must have an average life, including extensions, less than or equal to the corresponding instrument or transaction to which it is designated (i.e., a five year swap cannot be entered into to hedge a three year debt obligation). Any derivatives which can be extended in maturity by either the Authority or the counterparty must be approved by the Committee due to the potential speculative nature of such items (see Speculative Activities).

Other Considerations

Derivatives Operating Procedures

- The Authority's internally managed investment portfolio, debt portfolio and related interest rate risk are managed centrally by the Chief Financial Officer.

- Before entering into any derivative transaction, management must obtain a clear understanding of the products by determining how the value of the derivative relates to the value of the underlying instrument or index and how it operates. Further, management must ascertain that the fair value of the derivative can be estimated using internal valuation models or obtained from either the Authority's Financial Advisor or a broker/dealer other than the counterparty. The fair value of the derivatives portfolio will be monitored on at least a monthly basis and as requested to measure market risk, including the potential impact on operations of market movements, and credit risk, including exposures by counterparty and in total.
- The Authority will designate all hedging derivatives to a specific asset, liability, or portion of the debt portfolio, firm commitment or anticipated transaction.
- All interest rate swap contracts will conform to the standard International Swap Dealers Association ("ISDA") documentation with modifications as necessary with the advice of General Counsel.
- All derivatives will use an appropriate index (i.e., a taxable obligation should not be hedged with a SIFMA based swap).
- Derivatives should be entered into by either the President or Chief Financial Officer. In the ordinary course of business, the aforementioned individuals must agree on a derivative transaction prior to execution. This should be formally documented through authorization of the transaction confirmation by the approving parties via signature.
- Following execution of a transaction, terms of the transaction should be promptly communicated to all relevant parties. In a typical scenario, the Chief Financial Officer would execute the transaction over the phone. Thereafter, he/she would receive a written confirmation via facsimile from the counterparty financial institution. Upon signing of the confirmation, a copy of the statement should be circulated to the Chief Financial Officer, Finance Staff and appropriate personnel in the Accounting department as soon as practicable after confirmation of the transaction is received. Appropriate documentation with regard to necessary modifications to the relevant ISDA contracts or legal opinions should be obtained by the Finance Staff with the advice of General Counsel and filed with the appropriate agreements.
- In the event that a transaction is to be unwound or terminated prior to maturity due to changes in Authority policy, market conditions, or the underlying hedged item, the Committee shall be advised of the unwound or terminated transaction.

Counterparty Risk

The Authority will generally enter into derivative transactions with counterparties that are currently rated in the "A" category or higher or the equivalent rating by recognized rating agencies approved by the Committee and/or currently rating MEAG outstanding debt.

The Authority will generally continue in a derivative transaction if the counterparty's credit rating is downgraded below the "A" category. Appropriate steps will be taken to minimize risks if the counterparty's credit rating is downgraded below the "A" category. Such steps may include obtaining collateral, or some other acceptable form of credit enhancement, or terminating the transactions. Split-rated counterparties will be considered at the higher rating category if at least two rating agencies assign the higher rating. Counterparties with only two ratings will be considered at the lower rating. If an existing ISDA contains language further modifying rating requirements, such language should take precedence. The Committee will be notified of all credit downgrades and approve subsequent actions.

The Authority will not enter into a new derivative transaction with a counterparty if the new transaction will result in credit exposure related to derivative transactions governed by this Policy exceeding limits specified by the Committee. Finance Staff shall monitor counterparty credit performance and credit limits to minimize concentration risk. Such limits are currently set as follows:

- For counterparties rated AAA	Not limited
- For counterparties rated AA	Not greater than \$75 million
- For counterparties rated A	Not greater than \$50 million
- For counterparties rated BBB	Not greater than \$ 5 million

For purposes of this paragraph, "credit exposure" with the counterparty means the greater of the current net market value (as determined by generally accepted option pricing models - see Valuation) of all derivatives with "positive" values or 5% of the total notional value of the derivatives with that counterparty. Prior to entering into new derivative transactions with counterparties rated less than A3/A-, Staff should pursue and/or exhaust counterparty options rated A3/A- or higher unless such opportunities would result in less-than-competitive market outcomes for MEAG.

Authorized Brokers

The Chief Financial Officer shall maintain a list of authorized brokers for derivative transactions all of whom shall meet the credit standards of this section. All derivative transactions shall be accomplished with documents approved by the General Counsel.

Oversight and Support

Oversight by Committee

Through approval of this policy, the Board has authorized the Committee to assist it in establishing risk management policies and to oversee the Authority's management of interest rate risk and use of derivatives, however, the Board is ultimately responsible for oversight of compliance with this policy.

Duties and responsibilities of the Committee include:

- Monitoring strategies and permitted uses of and limitations on derivatives.

- Ensuring that policies, strategies, procedures and controls are clear and unambiguous and that they are consistently communicated to and understood by everyone responsible for their implementation and monitoring.
- Establishing a general framework for monitoring results of derivative activities and compliance with procedures and controls, including independent review and control procedures by senior management.
- Evaluating proposed uses of derivatives which are either not specifically or clearly permitted by this policy, and authorizing transactions considered appropriate and consistent with the overall business objectives of the Authority.
- Evaluating and approving new strategies and/or unusual transactions to ensure that all activities are consistent with this policy and with overall Authority objectives.
- Approving counterparties proposed by the Chief Financial Officer.
- Specifying reports to be prepared on a periodic basis to be used for monitoring derivative activities and positions.
- Ensuring that all personnel responsible for the Authority's involvement with derivatives (including the Finance, Accounting, Tax, Legal and Risk Management Departments) as well as financial advisory service providers are suitably qualified by training and experience to fulfill their responsibilities.
- Periodically reporting derivative activities, including deficiencies, to the Board and Committee.
- Establishing procedures for identifying and monitoring unusual situations that may indicate unexpected or unauthorized risks taking, existing or potential, such as:
 - Hedging activities that increase concern about possible changes in market rates or prices indicating that the entity is not reducing risk.
 - Unrecognized hedging losses that exceed unrealized cash market gains.
 - Unusual result when applying scenario analysis to existing positions.
 - Failure of risk management results to meet Authority objectives, indicating that the use of derivatives was not effective.

All directives of the Committee with respect to derivatives will be specifically documented in the meeting minutes of the Committee.

Independent Review and Control Procedures

The Risk Management / Internal Audit Department is responsible for performing procedures with respect to derivatives as requested by the Board in accordance with its charter and will report to the Committee on its findings.

Information Systems Support

The Committee will ensure that adequate information systems are available to support derivative activities considering the nature, size and complexity of the derivatives being used. Such systems should ensure that information about derivative transactions is captured, processed and reported and that transactions are settled in an orderly, efficient and timely manner. These systems also should include methods to independently verify information about the current fair value of derivative positions and other related instruments. Such systems should produce timely management reports, designed to facilitate measurement of the results of the Authority's derivative activities and monitor compliance with risk limit policies.

Monitoring

The Chief Financial Officer should monitor results of derivative activities, and compliance with procedures and controls on a quarterly basis. The Committee should review reports of compliance testing by Risk Management/Internal Audit, reports prepared on a quarterly basis of positions and activities and analyses of the effectiveness of using derivatives to accomplish objectives, including sensitivity to potential market changes.

The Authority will record, report and account for risk management and hedging activities in accordance with GAAP. To monitor management's compliance with this policy, the following quarterly report shall be submitted to the Committee.

- Open positions of derivatives, by type, showing notional amounts, maturity dates and items hedged or linked.
- Individual derivatives by type transacted during the most recent period detailing the specific hedged items, together with the relevant data demonstrating the effectiveness of the hedge.
- Gains and losses realized on any derivatives that were terminated and any transaction costs associated with the hedging activity, as well as offsetting amounts on hedged or linked items.
 - Unrealized gains and losses on derivative financial instruments.
 - Detail of any written option showing all relevant information including the specific objective for use, the term, fees received and strike price.
- Overall debt portfolio sensitivity analysis including effects of hedging activities.

- Any other information that the Committee deems relevant to hedging activities in order to fulfill its review and monitoring responsibility under this policy.

Definitions - Appendix C

Certain terms are defined below to avoid any confusion about their use for purposes of interpreting and applying this policy.

Business Risk

Business risk means quantifiable or identifiable risk relating to normal business operations (and activities that are a by-product of the normal business operations) of the Authority. Such operations and activities relate to development of services, including support activities, and are necessary for delivery of services of the Authority and cannot be avoided without the entity incurring substantial economic disadvantage because avoidance would unduly limit business operations. Forecasted transactions that expose the entity to risk and are probable also are considered business risks.

Credit Risk

The possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Derivative Financial Instrument

A derivative financial instrument is a futures, forward, swap or option contract, or other financial instrument with similar characteristics.

Examples of other financial instruments with characteristics similar to option contracts include interest rate caps or floors. Those instruments have characteristics similar to options in that they provide the holder with benefits of favorable movements in the price of an underlying asset or index with limited or no exposure to losses from unfavorable price movements, generally in return for a premium paid at inception by the holder to the issuer. Other financial instruments with characteristics similar to forward contracts include various kinds of commitments to purchase stocks or bonds, forward interest rate agreements, and interest rate collars. Those instruments are similar to forwards in that they provide benefits of favorable movements in the price of an underlying asset or index and exposure to losses from unfavorable price movements, generally with no payment at inception.

The definition of a derivative financial instrument for purposes of this policy excludes all on-balance-sheet receivables and payables, including those that “derive” their values or contractually

required cash flows from the price of some other security or index, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments. It also excludes optional features that are embedded within an on-balance-sheet receivable or payable (i.e., the conversion feature and call provisions embedded in convertible bonds).

Hedging

Hedging means reducing risk. Hedging includes activities that convert one type of risk to another risk that is deemed to be more tolerable or preferable than the existing risk. To qualify as a hedge, the activity should be expected to produce a measurable offset to risk relating to any asset, liability, committed transaction, or probable forecasted transaction. For forecasted transactions, offset can be accomplished if the activity locks in a fixed price, determined at the current market rate, thereby reducing or offsetting the risk that the current market price may change before the anticipated transaction occurs. Such offset should be measured against changes in market values or cash flows.

For derivative activities, offset generally will exist if a derivative position is relatively equal and opposite to the item being hedged. The expectation of offset is typically founded in high inverse correlation between the derivative and the item being hedged. To qualify in part as a hedging activity, the derivative should be structured to provide a high expectation of a high degree of correlation in price or cash flow movement from market changes between it and the hedged item. Offset objectives should include the management of basis risk, which is the risk that the yield and price correlation between the hedged item and the hedging instrument could change, resulting in an over-hedged position.

Market Risk

Exposure arising from adverse changes in the market value (i.e., price) of an instrument or portfolio of instruments.

Risk Management

Controlling the risk associated with all business activities of the Authority that could result in the possibility of sustaining any economic loss. It includes activities that identify, measure, assess, limit and reduce risk. Its goal is to limit and reduce risk to the Authority.

Speculative Risk

Any risk that is engaged in for its own sake and is not a business risk. It includes risk that results from transactions engaged in solely for purposes of profiting from market movements. It is unrelated to production and delivery of products and services, and it could be avoided without a substantial economic penalty to the Authority.

Systemic Risk

The risk that a disruption (at a firm, in a market segment, to a settlement system, etc.) causes widespread difficulties at other firms, in other market segments or in the financial system as a whole.

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D. ADMINISTRATION

Committee

The Committee is delegated responsibility for recommending to the Board this Policy and changes hereto, and for oversight and compliance with the Policy.

The Committee shall report quarterly to the Board on compliance with the Policy, and any other matters relative to oversight which the Committee deems important. The Committee shall report to the Board immediately any serious matter relating to non-compliance with the Policy, or any other significant matter requiring the Board's attention in the opinion of the Committee. Specific responsibilities of the Committee include:

- Reviewing the Policy and recommending it to the Board for adoption or re-approval.
- Reviewing changes to the Policy to keep it current with respect to new types of permitted investment securities and risk management strategies, changes in the degree of risks to be assumed, changes in market conditions and other changes or additions advisable in the opinion of the Committee and its advisors, and recommending such changes to the Board for adoption. Such review should take place biennially, or more often as changes in business conditions warrant.

Upon revision or re-approval of the Policy, updated versions are to be sent to the following: Committee Members; CEO; Chief Financial Officer; Chief Accounting Officer; Manager of Risk Management and Internal Audit; External Money Managers; Investment Advisor; Financial Advisor; and others as deemed necessary.

- Establishing, through executive management and internal auditing, a monitoring and reporting system to ensure compliance with the Policy.

Implementation

The Policy shall be effective upon its adoption by the Board. To the extent the portfolios and any positions do not comply with the Policy on its effective date, they will be brought into compliance as quickly as it is reasonably possible, having regard for the classification of the securities, without loss to the portfolios.

Policy Violations/Exceptions

Exceptions to the Policy may be approved in advance through a proper notification process. The Chief Financial Officer shall first review a potential exception, and then forward a recommendation to the CEO and the Committee and/or Board for final approval before implementation.

The CEO shall be immediately informed of any significant matters or adverse developments pertaining to any material violations of the Policy, along with an explanation of such violation and an action plan and timetable for achieving compliance with the Policy.

Policy violations should be noted in writing as part of the quarterly ALCO report and addressed by the Committee as needed.