to interest, penalties, and additions to tax.

Alternatively, Alabama may enter into a new Agreement with the appropriate Board, and such Board may enter into a new Indenture with the appropriate Revenue Bond Trustee pursuant to which the New Bonds will be issued. In such event, the Agreement and the Indenture will contain provisions described, below.

In order to obtain the benefit of ratings for the New Bonds equivalent to the rating of Alabama's first mortgage bonds outstanding under the Mortgage, Alabama may determine to secure its obligations under the Agreements by delivering to the Revenue Bond Trustee, to be held as collateral, a series of Collateral First Mortgage Bonds in principal amount either: (1) Equal to the principal amount of the New bonds; or (2) equal to the sum of the principal amount of the New Bonds plus interest payments thereon for a specified period. The Collateral First Mortgage Bonds will be issued under an indenture supplemental to the Mortgage ("Supplemental Indenture") to be dated as of the first day of the month in which the Collateral First Mortgage Bonds are to be issued and delivered, will mature on the maturity date of the New Bonds and will be nontransferable by the Revenue Bond Trustee. The Collateral First Mortgage Bonds in: (1) Above, would bear interest at a rate or rates equal to the interest rate or rates to be borne by the related New Bonds; and (2) above, would be non-interest bearing

The Supplemental Indenture will provide, however, that the obligation of Alabama to make payments with respect to the Collateral First Mortgage Bonds will be satisfied to the extent that payments are made under the Agreement sufficient to meet the payments when due in respect of the related New Bonds. The Supplemental Indenture will provide that, upon acceleration by the Revenue Bond Trustee of the principal amount of all related outstanding New Bonds under the Indenture, the Revenue Bond Trustee may demand the mandatory redemption of the related Collateral First Mortgage Bonds then held by it as collateral at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the date fixed for redemption. The Supplemental Indenture may also provide that, upon the optional redemption of the New Bonds, in whole or in part, at any time after they have been outstanding for a specified period, a related principal amount of the Collateral First Mortgage Bonds will be redeemed at the redemption price of the New Bonds.

In the case of interest bearing Collateral First Mortgage Bonds, because interest accrues in respect to the Collateral First Mortgage Bonds until satisfied by payments under the Agreement, "annual interest charges" in respect of such Collateral First Mortgage Bonds will be included in computing the "interest earnings requirement" of the Mortgage which restricts the amount of first mortgage bonds which may be issued and sold to the public in relation to Alabama's net earnings. In the case of non-interest bearing Collateral First Mortgage Bonds, since no interest would accrue in respect of such Collateral First Mortgage Bonds, the 'interest earnings requirement' would be unaffected.

The Indenture will provide that, upon deposit with the Revenue Bond Trustee of funds sufficient to pay or redeem all or any part of the related New Bonds, or open direction to the Revenue Bonds Trustee by Alabama to apply available funds for that purpose, or upon delivery of such outstanding New Bonds to the Revenue Bond Trustee by or for the account of Alabama, the Revenue Bond Trustee will be obligated to deliver to Alabama the Collateral First Mortgage Bonds then held as collateral in an aggregate principal amount as they relate to the aggregate principal amount of the New Bonds for the payment or redemption of which the funds have been deposited or applied or which shall have been so delivered.

Alabama may determine to secure its obligations under any Agreement by causing an irrevocable letter of credit ("Letter of Credit") of a bank ("Bank") to be delivered to the Trustee. The Letter of Credit would be an irrevocable obligation of the Bank to pay to the Trustee, upon request, up to an amount necessary in order to pay principal of and premium (if any) and certain accrued interest on the related New Bonds when due. Any Letter of Credit issued as security for the payment of New Bonds will be issued pursuant to a Reimbursement Agreement between Alabama and the financial institution issuing such Letter of Credit.

Pursuant to the Reimbursement
Agreement, Alabama will agree to pay
or cause to be paid to the financial
institution, on each date that any
amount is drawn under such
institution's Letter of Credit, an amount
equal to the amount of such drawing,
whether by cash or by means of a
borrowing from such institution
pursuant to the Reimbursement
Agreement. Any such borrowing may
have a term of up to 10 years and will
bear interest at the lending institution's
prevailing rate offered to corporate

borrowers of similar quality which will not exceed the prime rate or: (1) The London Interbank Offered Rate plus up to  $\frac{3}{8}$  of  $\frac{1}{6}$ ; (2) the lending institution's certificate of deposit rate plus up to  $\frac{1}{2}$  of  $\frac{1}{6}$ ; or (3) a rate not to exceed the prime rate, to be established by agreement with the lending institution prior to the borrowing. Such delivery of the Letter of Credit to the Trustee would obtain for the related New Bonds the benefit of a rating equivalent to the credit rating of the Bank.

As an alternative to, or in conjunction with, securing its obligations under any Agreement as described above, and in order to obtain a "AAA" rating for the related New Bonds by one or more nationally recognized securities rating agencies, Alabama may cause an insurance company to issue a policy of insurance guaranteeing the payment when due of the principal of and interest on such New Bonds. The insurance policy would extend for the term of the related New Bonds and would be non-cancelable by the insurance company for any reason. Alabama's payment in respect of said insurance policy could be in various forms, including a non-refundable, onetime insurance premium paid at the time the policy is issued, and/or an additional interest percentage to be paid to the issuer in correlation with regular interest payments. In addition, Alabama may be obligated to make payments of certain specified amounts into separate escrow funds and to increase the amounts on deposit in such funds under certain circumstances. The amount in each escrow fund would be payable to the insurance company as indemnity for any amounts paid pursuant to the related insurance policy in respect of principal of or interest on the related New Bonds.

It is contemplated that any New Bonds will be sold by the Board pursuant to arrangements with a purchaser or purchasers to be selected. In accordance with the laws of the State of Alabama, the interest rate to be borne by any series of New Bonds will be fixed by the Board and will be either a fixed rate, which fixed rate may be convertible to a rate which will fluctuate in accordance with a specified prime or base rate or rates or be determined through auction or remarketing procedures, or a fluctuating rate, which fluctuating rate may be convertible to a fixed rate. Bond counsel will issue an opinion that interest on the New Bonds will generally be exempt from federal income taxation. Alabama has been advised that the annual interest rates on obligations, the interest on which is tax exempt, recently have