

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY
Notes to the Financial Statements for the years ended June 30, 2021 and 2020**

11. COMMITMENTS

NES has no generating capacity and purchases all of its power from the Tennessee Valley Authority ("TVA") pursuant to a Power Contract dated December 19, 1977 (the "Power Contract"). The Power Contract had an initial term of 20 years, but beginning on December 19, 1987, and on each subsequent anniversary thereof, the contract has been automatically extended for one year. Effective September 2019, the wholesale contract with TVA was amended. Primarily, the termination notice was extended from 10 years to 20 years (agreement is still evergreen with an automatic one-year extension annually), wholesale rates were reduced by 3.1 percent, and TVA committed to providing a solution for local power companies to generate or purchase generation outside of TVA between 3 percent and 5 percent of load.

The Power Contract provides that the Board may sell power to all customers in its service area, except federal installations having contract demands greater than 5,000 kW and large customers as determined by a calculation outlined in TVA's Industrial Service Policy whom TVA may serve directly. At the present time, TVA does not directly serve any customer located within the service area of the Electric System.

The Power Contract contains provisions that establish the wholesale rates, resale rates and terms and conditions under which power is to be purchased by TVA and distributed to the customers of NES. Under the Power Contract, TVA, on a monthly basis, may determine and make adjustments to the wholesale rate schedule with corresponding adjustments to resale rate schedules necessary to enable TVA to meet all requirements of the Tennessee Valley Authority Act of 1933, as amended (the "TVA Act"), and the tests and provisions of TVA's bond resolutions.

NES purchased power totaling \$850.4 million and \$887.7 million from TVA during the years ending June 30, 2021 and 2020, respectively. The Power Contract establishes the resale rates that NES and other distributors charge the end-use power consumers. These rates are revised from time to time to reflect changes in costs, including changes in the wholesale cost of power. While the wholesale rates are uniformly applicable to all distributors of TVA power under the present power contracts with distributors such as NES, the retail resale rates will vary among distributors of TVA power depending upon the respective distributor's retail customer distribution costs. The rates of TVA for the sale of electric power in the TVA region and its contracts with distributors, including TVA, are structured with the intent to achieve the TVA Act's objective of the distributors of TVA power, including NES, to operate the respective distribution systems on a nonprofit basis and to provide a wide and ample supply of power at the lowest feasible rates.

NES' retail resale rates are subject to TVA's review and approval under the provisions, terms and conditions of the Power Contract. The Power Contract provides for revisions to the resale rates that may be charged by NES when necessary to permit NES to operate on a self-supporting and financially sound basis. NES is not aware of any pending legislation that would propose to make its retail electric rates subject to regulation by any third party or agency other than TVA. The Power Contract further provides that if the resale rates set forth therein do not provide sufficient revenues for the operation and maintenance of the Electric System on a self-supporting, financially-sound basis, including debt service,

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11. COMMITMENTS (continued)

TVA and NES shall agree to changes in rates to provide increased revenues. Similarly, if the rates and charges produce excess revenues, the Power Contract provides that the parties will agree to appropriate reductions. Since the date of the Power Contract, the wholesale and resale rates have been adjusted periodically.

12. SUBSEQUENT EVENTS

The Board approved a sale of excess land to a third party for \$17.0 million in July 2020. The closing is expected to occur after the site is decommissioned in calendar year 2021 when the replacement substation is completed.

NES has evaluated subsequent events through September 22, 2021, the issuance date of the financial statements, and has determined that there are no other subsequent events that require disclosure.