Affidavit of Philip C. Kron

My name is Philip C. Kron. I am a Vice President, Senior Credit Officer and Senior Professional at Citibank, N.A. I have been Department Head of Citibank's Utilities Department since January 1, 1979 and in that capacity supervise the bank's relationships with electric and gas utilities throughout the United States as well as certain diversified energy companies. Citibank is a major lender to the electric utility industry and the customers served by my Department include virtually all of the large investor owned electric utilities in the United States. Citibank also has major relationships within the rural electric cooperative (REC) industry with credit facilities to REC's aggregating more than $400 million. Total commitments to the electric utility industry exceed nine billion dollars.

I graduated from Dartmouth College with an AB degree in 1960 and graduated from Amos Tuck School of Business Administration at Dartmouth College in 1961 with an MBA. After spending three years on active duty as an officer in the U.S. Army, I spent four years with Price Waterhouse; two years in auditing and two years consulting. I am a CPA in the State of New York. I joined Citibank in late 1968 and have been employed there for the past nineteen years. I have spent approximately seven years lending to the electronics industry, two years in our corporate work-out area handling

bankruptcies, a year handling financially ailing real estate companies and nine years managing utility relationships.

During my experience over the past nine years with utilities, I have become deeply involved with the risks, problems and issues related to nuclear power. I have been actively involved with GPU in the aftermath of the accident at Three Mile Island as Citibank was agent on the $400 million bank credit which provided the company the financial flexibility to avoid bankruptcy after the accident. This role required providing testimony to the state public utility commissions in both New Jersey and Pennsylvania and to committees of both Houses of the U.S. Congress. I have also been intimately involved with the nuclear-related financial problems of Public Service Company of New Hampshire, Long Island Lighting Company, Middle South Utilities and Gulf States Utilities (GSU).

During the past ten months, I have been actively involved with Cajun Electric Power Cooperative, Inc. (Cajun) and the problems resulting from (i) Cajun's inability to raise electric rates due to the depressed Louisiana economy, (ii) the Chapter 11 filing of one of Cajun's thirteen distribution cooperative members, Washington St. Tammany (WST), and (iii) Cajun's joint ownership arrangement with GSU and its 940MW nuclear plant River Bend. Citibank and a group

of other commercial banks (the Banks) provided letters of credit to backstop approximately $200 million of publicly issued tax-exempt pollution control revenue bonds. Cajun's other major creditors are the Rural Electrification Administration (REA) and the Jackson Bank for Cooperatives (JBC). REA and JBC have a priority lien which attaches to virtually all of Cajun's assets and revenue stream. The Banks received credit assurance from the REA in the form of unadvanced government commitments set aside specifically to repay the Banks in the event Cajun encountered difficulties and could not meet its obligations to the Banks. The REA has informed Cajun in at least one instance that these unadvanced commitments are not available to be drawn upon to repay the Banks, thus, the Banks currently are in an unsecured position having relied upon the REA as the primary source of repayment.

I have reviewed the Alabama Power Company (APCO) settlement proposal in connection with the sale by APCO to Alabama Electric Cooperative (AEC) of an ownership interest in the Joseph M. Farley Nuclear Plant (Farley). Further I have reviewed (i) the draft of the proposed guaranty agreement to be entered into by AEC's distribution members, and (ii) AEC's response to APCO's settlement proposal and various attachments, including a letter from Mr. Bennett of the REA to AEC, and the affidavits from Mr. Gill of the

National Rural Utilities Cooperative Finance Corporation (CFC) and Mr. Edmiston of Shearson Lehman Hutton (Shearson). I have been asked by APCO to address: (1) the reasonableness of the settlement proposal by APCO from a credit standpoint; and (2) AEC's contention that the proposed guarantees would improperly erode the creditworthiness of its members.

I. First, it is my view that the proposed guarantees not only are reasonable, but are commercially essential in today's financial environment. APCO has proposed that AEC provide guarantees from its distribution members (Members) assuring APCO that the Members will stand behind the performance of AEC's contractual obligations.

(A) Clearly, APCO must be assured that AEC will pay all of its Farley ownership costs in the event unforeseen circumstances cause those costs to be extraordinarily high. In such event, APCO may be confronted with (i) a Chapter 11 filing by or dissolution of AEC, or (ii) a Chapter 11 filing by AEC's Members with subsequent rejection of the wholesale power contracts (all-requirements contracts) between AEC and its Members. In the event of an AEC bankruptcy or dissolution, APCO needs assurance that AEC's Members remain obligated for any and all Farley-related costs. Further, and perhaps more importantly, if AEC's Members file Chapter 11 and are able to reject as executory the wholesale power

contracts with AEC, the ultimate payment of Farley costs becomes very suspect due to the lack of financial wherewithal of AEC. In bankruptcy, these all-requirements contracts could be rejected; however, obligations under guarantees must be honored. Therefore APCO's request for financial protection from AEC's Members is critically important from a credit standpoint and eminently reasonable.

(B) Even in the past, private lenders have been unwilling to rely solely on the wholesale power contracts between REC's and their members as adequate security for payment. This is not addressed by AEC in any of the papers I reviewed. In Mr. Edmiston's affidavit, it is stated that "it is accepted financial practice for rural electric generation and transmission cooperatives to finance in the capital markets . . . without having their obligations guaranteed by their distribution cooperative members . . . REC's regularly borrow on their own from sources other than REA and CFC." While this statement is accurate, so far as it goes, the fact is that private lenders have required more security than would be provided by such a guarantee.

REC's do not regularly borrow on their own from sources other than REA and CFC. Almost without exception, whenever REC's access the capital markets, such financing is accomplished either with (i) REA support of some type,

(ii) credit support in the form of a letter of credit from a financial institution which in turn is supported by a shared lien on the REC's assets and revenue stream or by some other means, or (iii) the investor receiving a shared lien on the REC's assets and revenue stream (i.e., on a pari passu basis with the REA). Moreover, in the past, private investors have been of the view that with the United States government's involvement, these REC's would not be allowed to fail and that therefore sharing ratably with the REA provided full protection. However, in troubled situations, the REA has elected not to exercise its federal pre-emptive rights but has chosen to enter into long-term restructurings wherein the creditors are forced to forbear for periods of time. In addition, the REA has utilized federal statutes to place itself in a priority position over other creditors during the pendency of the restructurings to induce compliance from the other creditors. This activity has been well documented in Sunflower Electric Cooperative, Big Rivers Electric Cooperative and Cajun where private sector lenders have relied on the REA upon entering into financings. Thus, even stronger assurances than APCO has sought have not been fully sufficient in the face of financial difficulties.

(C) Today, in my view, it would be essential for any investor or private firm in the shoes of APCO to obtain

assurances of the type sought in the proposed guarantees. This conclusion is based on the experiences of Citibank and others in troubled REC situations. The two most serious cases are Wabash Valley Power Association (Wabash) and Cajun. Wabash, a G&T in Indiana, filed Chapter 11 due to its inability to raise rates to recover its investment in Marble Hill, a cancelled nuclear plant. Although Wabash filed Chapter 11, its members (i.e., its owners) have continued as viable entities and are not responsible for any of the obligations of Wabash. In Cajun, WST has filed Chapter 11 and is trying to reject as executory its all-requirements contract with Cajun. In light of these two recent cases whereby the G&T's contractual obligations are not being supported through the all-requirements contracts, it is only prudent for APCO to require that AEC's Members be contractually bound to AEC's participation in Farley.

II. In the Gill and Edmiston affidavits, it is argued that the proposed guarantees would "erode the perceived collateral of AEC's members" and therefore affect their creditworthiness. It is further suggested that such guarantees are not customary practice, but would become so after the transactions, and this would "complicate all future lending". These arguments simply are not valid.

(A) It is my understanding that AEC has stated that by virtue of AEC entering into a joint ownership agreement with APCO, AEC's Members would become legally obligated to pay AEC all Farley-related ownership costs pursuant to the all-requirements contracts. The collateral value of AEC'S Members continues to be only as good as their ability to recover the cost of electric service through rates; thus, when assessing the creditworthiness of AEC's Members, a lender must review all of the cooperatives' obligations and their ability to raise rates, if necessary, to meet these obligations. The obligation to pay Farley ownership costs either exists or it does not. If it exists, then a lender will take it into account in determining creditworthiness, as it would and should for any other owner of a nuclear plant. In other words, the guarantees are merely a confirmation in writing of an obligation that AEC states already exists and lenders will understand this. Once the obligation exists, the guarantee is immaterial to credit standing.

Participation in Farley does have a downside economic risk. Though its chances of occurring are small, if it occurs the magnitude of the risk is very high. It is the acceptance of this risk that may affect AEC's Members' creditworthiness but that is part and parcel of owning a

nuclear plant. A lender's perception that they may have to pay what they have already agreed to pay is not something that AEC's Members can rationally object to. AEC should not be permitted to accept the economic benefits of Farley without being subject to the economic risks.

(B) The argument that such guarantees would become customary practice and would "complicate all future lending" is also flawed. The traditional REC lenders, as noted above, already require greater security than APCO is seeking. Thus, APCO's proposal will not complicate such lending. So far as private lenders are concerned, there is no reason to ascribe any binding effect to this transaction. If anything is clear from the recent financial crisis faced by G&T's that have invested in projects that have turned out to be uneconomical, it is that currently there are clear financial risks in transactions involving cooperatives. One result of this crisis is that lenders and parties dealing with cooperatives will be motivated to consider ways to provide fully adequate security given the financial risks involved in the individual transaction. However, it is not true that all lenders will insist on identical guarantees for any future transactions with cooperatives. Banking is a highly competitive business,

and lenders will evaluate each transaction on its individual merits, and act accordingly.

STATE OF NEW YORK
New York COUNTY

PHILIP C. KRON, being first duly sworn, deposes and says that he has read the Affidavit of Philip C. Kron and that the matters and things set forth therein are true and correct to the best of his knowledge, information and belief.

Philip C. Kron

Subscribed and sworn to before me
this the 17th day of May, 1988.

Joan Franzino
Notary Public

My Commission Expires: April 30, 1989

JOAN FRANZINO
Notary Public, State of New York
No. 30-01FR4752174
Qualified in Nassau County
Certificate Filed in New York County
Commission Expires ~~March~~ April 30, 19[illegible]