

Updated by
Thermal Engineering Group, Inc.
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Metro Nashville District Energy System

DES Revenue Bonds, 2002A \$66,700,000

15c2-12 Continuing Disclosure Update

Please refer to www.nashville.gov/des for further information regarding the District Energy System (DES). The Official Statement is available online at: www.nashville.gov/finance/investor_relations.htm

THE SYSTEM AND ITS OPERATIONS

Overview

The District Energy System is a district heating and cooling system that provides steam and chilled water to the downtown metropolitan Nashville area for the purpose of general heating and air conditioning and is located in downtown Nashville. The Metropolitan Government of Nashville and Davidson County is the owner of the district system, the Energy Generating Facility (EGF) and the site on which the EGF is located. The ownership of a portion of the Energy Distribution System was transferred from the State to the Metropolitan Government in 2004.

Primary components of the System include (i) the steam production subsystem consisting of four 65,000 PPH forced draft, pressurized, dual-fuel boilers and a duplex soft water system; (ii) the chilled water subsystem comprised of nine 2,600-ton electrical drive chillers, 18 single-cell, induced draft cooling towers and 6 chilled water and 5 condenser water pump/motor sets; (iii) a 69/13/8 KV supply substation and two 69/13.8 KV transformers; and (iv) 14,000 trench feet of underground energy distribution piping.

Production and Sale of Energy

Sale of Energy Generated by the System

Historical Capacity and Sales: Under existing Customer Contracts between the Customers and the Metropolitan Government, the System provides steam and chilled water services to a total of 40 buildings in downtown Nashville, consisting of 16 privately owned buildings, 14 State owned buildings and 10 Metro-owned buildings. The rolling three-year average indicate that the private customers, the State and the Metropolitan Government accounted for approximately 25.5%, 49.7% and 24.8%, respectively, of the total steam sales and 33.6%, 37.4% and 29.0%, respectively, of the total chilled water sales. Below is a five-year summary of total historic steam and chilled water sales for the System:

Historical Sales - Fiscal Years Ended June 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Steam Sales (1,000 lbs)	345,721	315,713	290,175	335,016	332,648
Chilled Water Sales (1,000 ton hours)	50,164	49,610	49,098	57,673	60,720

System Capacity and Sales: The Energy Generating Facility has been designed to produce a total installed capacity of 260,000 PPH of 150 PSIG saturated steam and 23,400 tons per hour of 42°F chilled water. Assuming one boiler and one chiller off-line and a 70.0% diversity for steam and chilled water services, the Metropolitan Government has estimated total available sales capacity at 250,714 PPH for steam and 29,714 tons for chilled water.

The following table sets forth the current total capacities of steam and chilled water contracted for by the Customers pursuant to the Customer Contracts:

Customer Commitments	Committed Capacity		Percentage of Total Available Capacity	
	Steam (pph)	Chilled Water (tons)	Steam (-)	Chilled Wtr (-)
Commercial Customers				
Parkway Towers	4,500	550	1.79%	1.85%
Regions Bank	1,995	300	0.80%	1.01%
Sheraton Hotel	12,660	950	5.05%	3.20%
Wachovia (South Trust Bank)	2,000	233	0.80%	0.78%
Hermitage Hotel	7,000	400	2.79%	1.35%
501 Union Building	2,500	175	1.00%	0.59%
Fifth Third Financial Center	-	1,043	0.00%	3.51%
Renaissance Hotel	17,287	1,000	6.90%	3.37%
Renaissance Office Complex	-	255	0.00%	0.86%
Nashville City Center	-	850	0.00%	2.86%
Saint Mary's Church	317	26	0.13%	0.09%
Ryman Auditorium	954	180	0.38%	0.61%
Wildhorse Saloon	<u>1,600</u>	<u>193</u>	<u>0.64%</u>	<u>0.65%</u>
Total Commercial	50,813	6,155	20.27%	20.71%
State of Tennessee				
Andrew Jackson	65,808	1,425	26.25%	4.80%
James K Polk	14,560	1,309	5.81%	4.41%
John Sevier	(1)	404	0.00%	1.36%
Cordell Hull	(1)	498	0.00%	1.68%
Library & Archives	(1)	156	0.00%	0.53%
State Capitol	(1)	222	0.00%	0.75%
Supreme Court	(1)	78	0.00%	0.26%
War Memorial	(1)	704	0.00%	2.37%
Tennessee State University	(1)	-	0.00%	0.00%
Legislative Plaza	(1)	(2)	0.00%	0.00%
Central Services	(1)	(3)	0.00%	0.00%
Rachel Jackson	(1)	(1)	0.00%	0.00%
Citizen's Plaza	7,350	788	2.93%	2.65%
Tennessee Tower	<u>12,165</u>	<u>1,760</u>	<u>4.85%</u>	<u>5.92%</u>
Total State	99,883	7,344	39.84%	24.72%
Metropolitan Government				
Metro Courthouse	7,000	350	2.79%	1.18%
Criminal Justice Center	13,210	585	5.27%	1.97%
AA Birch/Ben West	13,800	1,050	5.50%	3.53%
Municipal Auditorium	4,500	600	1.79%	2.02%
Convention Center	18,750	1,400	7.48%	4.71%
Sommet Center	15,269	2,500	6.09%	8.41%
LP Field	<u>-</u>	<u>2,000</u>	<u>0.00%</u>	<u>6.73%</u>
Total Metro	72,529	8,485	28.93%	28.56%
Additional Customers				
Hume Fogg Academy	3,000	300	1.20%	1.01%
Sun Trust Bank	8,015	765	3.20%	2.57%
Schermerhorn Hall	4,200	500	1.68%	1.68%
Viridian Tower	-	600	0.00%	2.02%
Metro Public Library	<u>8,374</u>	<u>700</u>	<u>3.34%</u>	<u>2.36%</u>
Total Additional	23,589	2,865	9.41%	9.64%
TOTAL COMMITMENTS	246,814	24,849	98.44%	83.63%
Capacity Available for Sale	3,900	4,865	1.56%	16.37%
Total Available Capacity	250,714	29,714	100.00%	100.00%

Notes:

- (1) Included as part of Andrew Jackson capacity
- (2) Included as part of War Memorial capacity
- (3) Included as part of John Sevier capacity

Projected Operating Results; Projected Revenues and Expenses

The following table sets forth the operating results for the past year of operations, and certain base case financial projections developed by Thermal Engineering Group, Inc. (TEG) for the succeeding 5 years of operation of the System. The base case projections assume sales based on Customer Contracts existing as of the date hereof and not on sales of any remaining available capacity.

Forecast of Revenues and Expenses Fiscal Years Ended June 30

		FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
		Actual	Budget	Budget	Projected	Projected	Projected
Metro Funding Amount	\$	2,232,556	\$ 2,408,568	\$ 2,569,472	\$ 2,481,594	\$ 2,245,259	\$ 2,363,230
<u>Customer Revenues</u>	\$	<u>18,487,806</u>	<u>\$ 20,586,822</u>	<u>\$ 20,118,900</u>	<u>\$ 20,722,467</u>	<u>\$ 21,344,141</u>	<u>\$ 21,984,465</u>
Total Operating Revenues	\$	20,720,362	\$ 22,995,390	\$ 22,688,372	\$ 23,204,061	\$ 23,589,400	\$ 24,347,695
Total Operating Expenses	(1) \$	15,783,025	\$ 17,840,216	\$ 17,309,747	\$ 17,829,039	\$ 18,363,911	\$ 18,914,828
Net Revenues	\$	4,937,337	\$ 5,155,174	\$ 5,378,625	\$ 5,375,022	\$ 5,225,490	\$ 5,432,868
Total Debt Service	(2) \$	4,937,337	\$ 5,155,174	\$ 5,378,625	\$ 5,375,022	\$ 5,225,490	\$ 5,432,868
Net Revenue Available	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -

Notes:

- (1) Operating expenses include transfers made to the Operating Reserve Fund and the EDS Repair and Replacement Fund.
- (2) Debt service amounts have been pro-rated on a 12-month fiscal year basis and are net of any interest earnings and capitalized interest payments. Total debt service includes potential obligations relative to approved capital budgets through FY 08.

Based on the experience of TEG and the information made available to it by way of historical operating data for the Metro Nashville District Energy System, TEG is of the opinion that the revenues projected to be derived from operation of the System are adequate to pay all operating expenses and provide a minimum debt service coverage on the 2002 Series A Bonds of at least 1.00 over the term of the debt.