

\$110,000,000
City of Riverside, California
Electric Revenue Bonds,

comprised of

\$27,500,000 Issue of 2004A
(Fixed Rate Bonds)

\$82,500,000 Issue of 2004B
(Auction Rate Securities)

Dated: Date of Delivery

Due: October 1, as shown on inside cover

The 2004 Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2004 Bonds. Purchasers of the 2004 Bonds will not receive physical certificates representing their interests in 2004 Bonds purchased. Principal of, premium, if any, and interest on the 2004 Bonds are payable directly to DTC by U.S. Bank National Association, as fiscal agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2004 Bonds.

The 2004A Bonds will be delivered as fixed rate bonds in denominations of \$5,000 or any integral multiple thereof. Interest will be payable on October 1, 2004 and semiannually thereafter on April 1 and October 1 of each year.

The 2004B Bonds will be delivered as auction rate securities in denominations of \$25,000 or any integral multiple thereof. The 2004B Bonds will bear interest at Auction Rates initially for generally successive 7-day Auction Periods and interest will be payable on the business day immediately following each Auction Period. Each Auction Rate for the 2004B Bonds will be equal to the annual interest rate that results from the implementation of the Auction Procedures described in Appendix D hereto. Prospective purchasers of the 2004B Bonds should carefully review the Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell based upon the result of an Auction and (ii) while 2004B Bonds are in a 7-day Auction Period, settlement for purchases and sales will be made on the Business Day following the Auction Period.

The 2004A Bonds are not subject to redemption prior to maturity. The 2004B Bonds are subject to optional and mandatory redemption prior to maturity as described herein. The 2004B Bonds will not be subject to optional tender, nor will they be purchased in the event Sufficient Clearing Bids do not exist in any Auction. See "DESCRIPTION OF THE 2004 BONDS." See also "APPENDIX D—SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES."

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the 2004 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2004 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See, however, "TAX EXEMPTION" herein regarding certain other tax considerations.

The 2004 Bonds are special limited obligations of the City of Riverside, California (the "City") payable solely from the Net Operating Revenues of the City's Electric System and do not constitute a general obligation or indebtedness of the City. The 2004 Bonds will be secured by a pledge of the Net Operating Revenues on a parity with \$215,665,000 in aggregate principal amount of the City's outstanding electric revenue Bonds and any additional electric revenue Bonds and Parity Debt issued in the future.

The 2004 Bonds are being issued (i) to finance the costs of acquisition and construction of a 99.6 MW two unit simple cycle power plant and related transmission lines for the City, (ii) to finance the costs of acquisition and construction of certain other additions and improvements for the Electric System, including to the Electric System distribution and transmission facilities of the City (the "2004 Project" as defined herein), (iii) to fund a reserve account for the 2004 Bonds, (iv) to fund capitalized interest on 2004 Bonds, and (v) to pay costs of issuance of the 2004 Bonds. See "THE 2004 PROJECT."

The scheduled payment of principal of and interest on the 2004 Bonds when due will be guaranteed under separate insurance policies for each Series of the 2004 Bonds to be issued by MBIA Insurance Corporation simultaneously with the delivery of the 2004 Bonds.



This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2004 Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Sidley Austin Brown & Wood LLP, Los Angeles, California. It is expected that the 2004 Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about June 3, 2004.

Citigroup

MATURITY SCHEDULES

\$27,500,000 2004A Bonds

<u>Maturity Date (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number</u>	<u>Maturity Date (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number</u>
2006	\$2,615,000	4.00%	2.25%	768874NX3	2011	\$3,280,000	5.00%	3.94%	768874PC7
2007	2,725,000	4.00	2.74	768874NY1	2012	3,505,000	5.00	4.12	768874PD5
2008	2,855,000	5.25	3.13	768874NZ8	2013	3,695,000	5.50	4.25	768874PE3
2009	3,010,000	5.25	3.45	768874PA1	2014	2,645,000	5.00	4.40	768874PF0
2010	3,170,000	5.25	3.71	768874PB9					

\$82,500,000 2004B Bonds

Price: 100%

<u>Tax Status</u>	<u>Initial Auction Date</u>	<u>Auction Date Generally</u>	<u>Initial Interest Payment Date</u>	<u>Interest Payment Date Generally</u>	<u>Length of Initial Period</u>	<u>Final Maturity Date</u>	<u>CUSIP Number</u>
Non-AMT	06/15/04	Every Tuesday	06/16/04	Every Wednesday	13 days	10/01/29	768874NW5

The 2004B Bonds will bear interest from the date of delivery for the initial period set forth above at the rate established by the Underwriter for the 2004B Bonds prior to the date of delivery thereof. Thereafter, the 2004B Bonds will evidence interest at the Auction Rates for generally 7-day Auction Periods, until the length of the Auction Period is changed, as described herein. Interest will be payable on the initial Interest Payment Date set forth above and thereafter on the day following the end of each Auction Period for the 2004B Bonds.

Deutsche Bank Trust Company Americas will act as the Auction Agent and Citigroup Global Markets Inc. will act as the initial Broker-Dealer for the 2004B Bonds.

THE CITY OF RIVERSIDE

CITY COUNCIL

Ronald O. Loveridge, *Mayor*

Dom Betro, 1st Ward	Ed Adkison, 5th Ward
Ameal Moore, 2nd Ward	Nancy Hart, 6th Ward
Art Gage, 3rd Ward	Steve Adams, 7th Ward
Frank Schiavone, 4 th Ward	

BOARD OF PUBLIC UTILITIES

Lalit N. Acharya, *Chairman*

David E. Barnhart	Conrad Newberry Jr.
Peter G. Hubbard	James W. Anderson
Joe Tavaglione	Robert Stockton

CITY OFFICIALS

George A. Carvalho, *City Manager*

Penny Culbreth-Graft, <i>Assistant City Manager</i>	Thomas P. Evans, <i>Public Utilities Director</i>
Michael J. Beck, <i>Deputy City Manager</i>	David H. Wright, <i>Utilities Deputy Director/Marketing and Customer Service</i>
Gregory P. Priamos, <i>City Attorney</i>	Dieter P. Wirtzfeld, <i>Utilities Assistant Director/Water</i>
Colleen Nicol, <i>City Clerk</i>	Stephen H. Badgett, <i>Utilities Assistant Director/Energy Delivery</i>
Paul C. Sundeen, <i>Finance Director and Treasurer</i>	Donna I. Stevener, <i>Utilities Assistant Director/Finance & Resources</i>
Brent Mason, <i>Assistant Finance Director</i>	

BOND COUNSEL

Fulbright & Jaworski L.L.P.
Los Angeles, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2004 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2004 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE 2004 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2004 BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as specifically set forth herein, the City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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**Official Statement
of the
City of Riverside, California
relating to its**

**\$110,000,000
Electric Revenue Bonds,**

comprised of

**\$27,500,000 Issue of 2004A
(Fixed Rate Bonds)**

**\$82,500,000 Issue of 2004B
(Auction Rate Securities)**

INTRODUCTION

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City") of \$110,000,000 aggregate principal amount of Electric Revenue Bonds, Issue of 2004 (the "2004 Bonds"), comprised of \$27,500,000 principal amount of Electric Revenue Bonds, Issue of 2004A (Fixed Rate Bonds) (the "2004A Bonds") and \$82,500,000 principal amount of Electric Revenue Bonds, Issue of 2004B (Auction Rate Securities) (the "2004B Bonds"). The 2004 Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended ("Ordinance No. 5001"), and Resolution No. 17662 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as heretofore amended and supplemented, and as supplemented by a sixth supplemental resolution adopted by the City Council on May 11, 2004 (the "Sixth Supplemental Resolution") providing for the issuance of the 2004A Bonds, and a seventh supplemental resolution adopted by the City Council on May 11, 2004 (the "Seventh Supplemental Resolution") providing for the issuance of the 2004B Bonds. The Master Resolution, as previously amended and supplemented, and as supplemented by the Sixth Supplemental Resolution and the Seventh Supplemental Resolution, is hereinafter collectively referred to as the "Resolution."

The City has previously issued and has outstanding for the financing of certain costs of its electric utility system (the "Electric System") (i) Electric Refunding Revenue Bonds, Issue of 1998 (the "1998 Bonds"), issued pursuant to Resolution No. 19262 adopted by the City Council on April 28, 1998 (the "Third Supplemental Resolution"); (ii) Electric Revenue Bonds, Issue of 2001 (the "2001 Bonds"), issued pursuant to Resolution No. 19967 adopted by the City Council on July 24, 2001 (the "Fourth Supplemental Resolution"); and (iii) Electric Refunding Revenue Bonds, Issue of 2003 (the "2003 Bonds"), issued pursuant to Resolution No. 20420 adopted by the City Council on May 27, 2003 (the "Fifth Supplemental Resolution"), amending and supplementing the Master Resolution. The City Charter, Ordinance No. 5001 and the Resolution are hereinafter collectively referred to as the "Law."

The 2004 Bonds, together with the \$94,080,000 outstanding principal amount of the 1998 Bonds, the \$47,215,000 outstanding principal amount of the 2001 Bonds, the \$74,370,000 outstanding principal amount of the 2003 Bonds, and any future bonds issued under the Master Resolution on a parity therewith (herein collectively referred to as the "Bonds"), will be equally and ratably secured by the pledge of and charge on the Net Operating Revenues of the Electric System created by the Resolution. The Resolution generally defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses (as more fully described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 BONDS—Net Operating Revenues").

The City reserves the right to issue and incur additional parity obligations that do not constitute Bonds ("Parity Debt") from time to time, secured by a pledge and charge on the Net Operating Revenues of the Electric System on a parity with the pledge and charge on the Net Operating Revenues securing the Bonds, to the extent permitted by the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 BONDS—Additional Bonds and Parity Debt."

Purpose of the 2004 Bonds

The 2004 Bonds are being issued (i) to finance the costs of acquisition and construction of a 99.6 megawatt ("MW") two unit simple cycle power plant and related transmission lines for the City, (ii) to finance the costs of acquisition and construction of certain other additions and improvements for the Electric System, including to the distribution and transmission facilities of the City (the "2004 Project" as defined herein), (iii) to fund a reserve account for the 2004 Bonds, (iv) to fund capitalized interest on 2004 Bonds and (v) to pay costs of issuance of the 2004 Bonds. See "THE 2004 PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Rate Covenant

Pursuant to the Law, the 2004 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the 1998 Bonds, the 2001 Bonds, the 2003 Bonds and any other Bonds or Parity Debt issued in the future. Certain of the City's obligations to joint action agencies, including obligations with respect to bonds issued by such joint action agencies, are payable by the City from Gross Operating Revenues as Operating and Maintenance Expenses. See "THE ELECTRIC SYSTEM – Outstanding Electric Revenue Bonds and Other Obligations."

The City is obligated by the Resolution to establish rates and collect charges in an amount sufficient to pay debt service on the Bonds and Parity Debt, to meet its expenses of operation and maintenance and to pay other obligations payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2004 BONDS—Net Operating Revenues" and "—Rate Covenant." Electric rates are established by the City of Riverside Board of Public Utilities, subject to approval by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "CPUC") or any other State agency.

The general fund of the City is not liable for the payment of the 2004 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2004 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2004 Bonds and premium upon redemption if any thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property, or upon any of its income, receipts, or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2004 Bonds, the interest thereon and any premium upon redemption.

Bond Insurance

The scheduled payment of the principal of and interest on the 2004 Bonds when due will be guaranteed under separate insurance policies for each Series of the 2004 Bonds (collectively, the

“Policy”) to be issued by MBIA Insurance Corporation (the “Insurer”) simultaneously with the delivery of the 2004 Bonds.

2004 Reserve Account

Pursuant to the Resolution, the Electric Revenue Bonds, Issue of 2004, Reserve Account (the “2004 Reserve Account”) will be funded in an amount equal to the 2004 Bond Reserve Requirement (initially, \$8,181,203.99). The 2004 Reserve Account may be funded with money, Authorized Investments, a line of credit, letter of credit, insurance policy, surety bond or other credit source meeting the requirements of the Resolution, or a combination thereof. The “2004 Bond Reserve Requirement” is defined in the Resolution as an amount equal to, as of any date of calculation, the least of (a) 10% of the stated principal amount or, when required by the Internal Revenue Code of 1986, as amended (the “Code”), or the Treasury Regulations, 10% of the initial offering price to the public of the 2004 Bonds as determined under Code, or (b) the maximum amount of principal and interest payable on the 2004 Bonds then outstanding in the then current and any subsequent fiscal year or (c) 125% of average annual debt service on the 2004 Bonds; provided, however, that with respect to the calculation of the 2004 Bond Reserve Requirement, interest on the 2004B Bonds shall be deemed to accrue at a rate of 5% per annum. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2004 BONDS—2004 Reserve Account.”

Joint Powers Agency Obligations

The City has entered into a power purchase contract with the Intermountain Power Agency, a political subdivision of the State of Utah, to purchase a 7.617% share of the Intermountain Power Project generating station and certain related facilities (the “IPP Generating Station”). For the fiscal year ended June 30, 2003, the IPP Generating Station supplied over 43.0% of the energy of the City’s Electric System. In addition, the City and other public agencies in Southern California are members of the Southern California Public Power Authority (“SCPPA”). SCPPA is a joint powers agency created for financing, acquiring and constructing electric generating and transmission projects for participation by some or all of its members. The City is a participant in the following SCPPA projects: the Palo Verde Nuclear Generating Station, consisting of three nuclear electric generating units, each rated 3,893 MW (thermal) near Phoenix, Arizona (“PVNGS”) and associated facilities; certain improvements to the generating units at the hydroelectric power plant of the Hoover Dam (the “Hoover Upgrading Project”); a 256-mile, 500 kV alternating current (“AC”) transmission line from the Phoenix, Arizona area to the area of Boulder City, Nevada (the “Mead-Phoenix Transmission Project”); a 202-mile, 500 kV AC transmission line from the area of Boulder City, Nevada to the Adelanto Substation in Southern California (the “Mead-Adelanto Transmission Project”); and an approximately 490-mile, 500 kV transmission line from the area of Lynndyl, Utah to Adelanto, California (the “Southern Transmission System”). See “THE ELECTRIC SYSTEM—Power Supply” and “—Transmission Facilities.”

The City’s obligations to make payments with respect to the IPP Generating Station and the SCPPA projects in which it participates are unconditional “take-or-pay” obligations, obligating the City to make such payments as Operating and Maintenance Expenses of the Electric System whether or not any of such projects are operating or operable, or the output thereof is suspended, interfered with, reduced, curtailed or terminated in whole or in part. See “THE ELECTRIC SYSTEM—Outstanding Electric Revenue Bonds and Other Obligations.”

The Electric System

The Electric System serves the entire area of the City. The City’s electric requirements are provided by a variety of resources described later in this Official Statement. The Electric System is supplied by seven 66-kV transmission lines which originate at the Vista Substation of Southern California

Edison Company (“Edison”) to provide bulk delivery of power and energy to the City’s internal 66-kV transmission system. For the fiscal year ended June 30, 2003, the average number of customers of the Electric System was 98,459 and the total megawatt-hours (“MWh”) generated and purchased were 2,346,200. The Electric System’s peak load of approximately 517.2 MW occurred on September 5, 2003.

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2004 Bonds to provide certain financial information and operating data relating to the Electric System and to provide notices of the occurrence of certain enumerated events, if material. See “CONTINUING DISCLOSURE” and “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Brief descriptions of the 2004 Bonds, the security and sources of payment therefor, the Electric System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2004 Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (909) 826-5557. A copy of the most recent annual report of the Electric System may be obtained from the Utilities Assistant Director/Finance & Resources of the City of Riverside Public Utilities Department, at the same address, and is also available on the Utility’s website at www.riversidepublicutilities.com. Financial and statistical information set forth herein, except for the audited financial statements included in Appendix B, is unaudited. The source of such information is the City unless otherwise stated. Terms not defined herein shall have the meanings as set forth in the respective documents.

DESCRIPTION OF THE 2004 BONDS

The following is a summary of certain provisions of the 2004 Bonds. Reference is made to the 2004 Bonds of each Series for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion herein is qualified by such reference. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION” and “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES.”

General

The 2004 Bonds will be issued in the aggregate principal amount of \$110,000,000, comprised of \$27,500,000 principal amount of 2004A Bonds and \$82,500,000 principal amount of 2004B Bonds. The 2004 Bonds will be prepared as one fully registered bond for each maturity of each Series, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2004 Bonds. Principal, premium, if any, and interest on the 2004 Bonds will be payable by the Fiscal Agent to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2004 Bonds. See “APPENDIX F – BOOK-ENTRY ONLY SYSTEM.”

2004A Bonds

General Provisions

The 2004A Bonds will be dated the date of delivery thereof and will bear interest from their date at the rates per annum set forth on the inside front cover of this Official Statement (calculated on the basis

of a 360-day year consisting of twelve 30-day months), payable on October 1, 2004 and semiannually thereafter on April 1 and October 1 of each year to the registered owners thereof as of the close of business on the fifteenth day prior to such interest payment date. The 2004A Bonds will mature on October 1 in the years and in the principal amounts set forth on the cover page of this Official Statement. The 2004A Bonds will be issued as fully registered bonds in denominations of \$5,000 or in any integral multiple thereof.

Redemption of 2004A Bonds

The 2004A Bonds are not subject to redemption prior to maturity.

2004B Bonds

General Provisions

The 2004B Bonds will be dated the date of initial delivery thereof and will mature on the date shown on the inside cover page of this Official Statement. The 2004B Bonds will bear interest at an Auction Rate. Initially, the Auction Rate for the 2004B Bonds will be determined for successive 7-day Auction Periods, each through the implementation of the Auction Procedures summarized under "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES—Description of Auction—Auction Procedures." Certain of the defined terms used herein are defined in Appendix D. The Maximum Interest Rate for the 2004B Bonds permitted under the Resolution is currently 12% per annum and the Applicable ARS Rate cannot exceed the Maximum Interest Rate. The 2004B Bonds will be delivered in denominations of \$25,000 and integral multiples thereof.

Interest

Interest Payments. Interest on the 2004B Bonds shall accrue for each Interest Period and shall be payable in arrears, on each succeeding Interest Payment Date. An "Interest Payment Date" for the 2004B Bonds means the Business Day following the last day of each Auction Period, and in all cases on the maturity of the 2004B Bonds, whether at stated maturity, a redemption date, or otherwise. An "Interest Period" means, unless otherwise changed as described under "Changes in Auction Periods or Auction Date" below, the period commencing on the date of the original issuance of the 2004B Bonds and ending on the next Tuesday at least seven days after such original issuance and each successive period of generally seven days therefor, commencing on a Wednesday (or the day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on a Tuesday (unless the day following such Tuesday is not a Business Day, in which case on the next succeeding day that is followed by a Business Day). Interest Payment Dates may change in the event of a change in the length or date of commencement of one or more Auction Periods.

Interest during any Auction Period (including the Initial Auction Period) shall be computed by the Fiscal Agent on the basis of a 360-day year for the number of days actually elapsed.

Auction Rate. The rate of interest on the 2004B Bonds for each Interest Period shall be the Auction Rate, which is equal to the rate of interest per annum on any Auction Date that results from implementation of the Auction Procedures described in the Resolution (the "Applicable ARS Rate") unless the Auction Rate would exceed the Maximum ARS Rate, in which case the rate of interest shall be the Maximum ARS Rate; provided that if on any Auction Date, an Auction is not held and one should have been held, then the rate of interest for the next succeeding Interest Period shall equal the same rate as in effect on such Auction Date for the next Auction Period, which shall be the same length as the current

Interest Period. Notwithstanding the foregoing, (i) if the ownership of the 2004B Bonds is no longer maintained in book-entry form by DTC, the rate of interest on the 2004B Bonds for any Interest Period commencing after the delivery of certificates representing 2004B Bonds shall equal the Maximum ARS Rate, as determined by the Fiscal Agent or (ii) if a Payment Default occurs, Auctions will be suspended and the interest rate for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate, as determined by the Fiscal Agent. Notwithstanding anything herein to the contrary, the Applicable ARS Rate shall not exceed the Maximum Interest Rate.

Auction Participants

Existing Holders and Potential Holders. Participants in each Auction will include (i) "Existing Holders," which shall mean (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a person who is a Broker-Dealer listed in the Existing Holder registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a person who is a beneficial owner of 2004B Bonds, and (ii) "Potential Holders," which shall mean any person (including an Existing Holder that is (a) a Broker-Dealer when dealing with the Auction Agent and (b) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring 2004B Bonds (or, in the case of an Existing Holder thereof, an additional principal amount of 2004B Bonds).

By purchasing 2004B Bonds, whether in an Auction or otherwise, each prospective purchaser or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms set forth in Appendix D hereto; (ii) so long as the beneficial ownership of the 2004B Bonds is maintained in book-entry form by DTC, to sell, transfer or otherwise dispose of 2004B Bonds only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of 2004B Bonds and the 2004B Bonds so transferred, its Participant or its Broker-Dealer advises the Auction Agent of such transfer; and (iii) to have its beneficial ownership of 2004B Bonds maintained at all times in book-entry form by the Securities Depository for the account of its Participants, which in turn will maintain records of such beneficial ownership, and to authorize such Participants to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request.

Auction Agent. Deutsche Bank Trust Company Americas is appointed as the initial Auction Agent for the 2004B Bonds. The Fiscal Agent is directed by the City to enter into the initial Auction Agency Agreement with Deutsche Bank Trust Company Americas. The Auction Agent shall be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof, and having a combined capital stock, surplus and undivided profits of at least \$50,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Resolution and under the Auction Agency Agreement and approved by the Insurer. The Auction Agent may resign and be discharged of the duties and obligations created by the Resolution by giving at least 90 days' written notice to the City, the Fiscal Agent, the Market Agent and the Insurer (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days, and upon the expiration of such 30-day period, the Auction Agent may resign even if a successor Auction Agent has not been appointed). The Auction Agent may be removed upon written notice to the Fiscal Agent, the City, the Market Agent and the Insurer on the date specified in such notice, which date shall be no earlier than 90 days after the date of delivery of such notice; provided, however, that the Auction Agent may be removed at any time (i) for cause (as determined by the Insurer) by the Insurer or (ii) with

the prior written consent of the Insurer (which consent shall not be unreasonably withheld) by the Fiscal Agent if the Auction Agent is an entity other than the Fiscal Agent, acting at the direction of the City or the holders of 66-2/3% of the aggregate principal amount of the 2004B Bonds; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Fiscal Agent are the same entity, the Auction Agent may be removed as described above, with the City acting in lieu of the Fiscal Agent.

If the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the City shall use its best efforts to appoint a successor as Auction Agent, and the Fiscal Agent shall thereupon enter into an Auction Agency Agreement with such successor.

The Auction Agent is acting solely as Auction Agent under the Auction Agency Agreement and owes no fiduciary duties to any person by reason of the Auction Agency Agreement. In the absence of willful misconduct or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

Broker-Dealer. Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a “Broker-Dealer,” including Citigroup Global Markets Inc. as the sole initial Broker-Dealer or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Resolution that (i) is a “Participant” (*i.e.*, a member of, or participant in, DTC or any successor securities depository) or an affiliate of a Participant, (ii) has a capital surplus of at least \$50,000,000, (iii) has been selected by the City with the approval of the Market Agent (which approval shall not be unreasonably withheld) and (iv) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

Market Agent. The “Market Agent,” initially Citigroup Global Markets Inc., acting pursuant to the Market Agent Agreement, and in connection with the 2004B Bonds, shall not assume any obligation or relationship of agency or trust of or with any of the beneficial owners of the 2004B Bonds. The Fiscal Agent shall not be liable in any way for any action taken, suffered, or omitted, or for any error of judgment made by the Market Agent, whether in performance of its duties under the Market Agent Agreement or otherwise.

Auctions

Auctions to establish the Auction Rate for the 2004B Bonds are to be held on each Auction Date, except as described above under “Interest–Auction Rate,” by application of the Auction Procedures described in Appendix D. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under “Changes in Auction Periods or Auction Date—Changes in Auction Period or Periods.”

The Auction Agent shall determine the All-Hold Rate on each Auction Date. If the ownership of the 2004B Bonds is no longer maintained in book-entry form by DTC, no further Auctions will be held and the interest rate on the 2004B Bonds for each subsequent Interest Period will equal the Maximum

ARS Rate. If a Payment Default shall have occurred, the Fiscal Agent shall announce the Default Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default.

So long as the ownership of the 2004B Bonds is maintained in book-entry form by DTC, an Existing Holder may sell, transfer or otherwise dispose of its beneficial interest in 2004B Bonds only pursuant to a Bid or Sell Order placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer.

Auctions shall be conducted on each Auction Date, if there is an Auction Agent and Broker-Dealer on such Auction Date, in the manner described in Appendix D. A description of the Settlement Procedures to be used with respect to Auctions is contained in Attachment B of Appendix D.

Changes in Auction Periods or Auction Date

Changes in Auction Period or Periods. The Market Agent, with the written consent of the City may change, from time to time, the length of one or more Auction Periods (a “change in the length of one or more Auction Periods”). The Market Agent shall initiate the change in the length of one or more Auction Periods by giving written notice to the Fiscal Agent, the Auction Agent, the Insurer, the City and the Securities Depository at least ten days prior to the Auction Date for such Auction Period. Any such changed Auction Period shall not be less than seven days.

The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. In addition, such change shall take effect only if certain requirements are met as described in the Resolution.

Changes in Auction Date. The Market Agent (with the consent of the City):

(i) in order to conform with then current market practice with respect to similar securities, shall;
or

(ii) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the 2004B Bond and upon receipt of a Favorable Opinion, may

specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of “Auction Date” with respect to one or more specified Auction Periods. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least ten days prior to the proposed changed Auction Date to the Fiscal Agent, the Auction Agent, the City, the Insurer and the Securities Depository.

In connection with any change in the Auction terms described above, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

No Changes if Ratings Adversely Affected. No change shall be made to the Auction Period or Auction Date unless the City shall have received written confirmation from the Rating Agencies that the ratings on any of the 2004B Bonds will not be adversely affected.

Sale of 2004B Bonds in the Secondary Market. The Broker-Dealer may assist in resales of the 2004B Bonds, but it is not required to do so. A secondary market for the 2004B Bonds might not develop. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow owners to resell any of their 2004B Bonds.

Furthermore, the Auction Procedures and transfer requirements described in Appendix D may limit the liquidity and marketability of 2004B Bonds and therefore may not yield an owner the best possible price for a 2004B Bond. The ratings of the 2004B Bonds by the Rating Agencies do not address the market liquidity of the 2004B Bonds.

No Liquidity Facility for the 2004B Bonds. The 2004B Bonds will not be supported by a liquidity facility. If, for example, an Existing Holder were to submit a Sell Order or a Bid Order subject to an interest rate that is determined to be greater than the Maximum ARS Rate for such Auction Date, and Sufficient Clearing Bids are not obtained on such Auction Date, such Existing Holder will not have its 2004B Bonds purchased through the Auction Procedures on such Auction Date. In such event, no assurance can be given that a Broker-Dealer will purchase or will otherwise be able to locate a purchaser prior to the next Auction Date or that Sufficient Clearing Bids will be obtained on any succeeding Auction Date. If Sufficient Clearing Bids have not been obtained (other than because all of the Outstanding 2004B Bonds are subject to Submitted Hold Orders) and the Auction Rate remains at the Maximum ARS Rate for ninety (90) consecutive days, and if (but only if) an Event of Default exists under the Resolution at the end of such ninety (90) day period, then the City shall within ninety (90) days thereafter either (i) using its best efforts, seek to refund all of the Outstanding 2004B Bonds or (ii) convert the Outstanding 2004B Bonds to a different interest rate mode selected by the City (provided that the Resolution has been amended, in accordance with its terms, to permit such conversion to a different interest rate mode). In the event the Resolution has been amended to permit conversion to another interest rate mode, the 2004B Bonds will be subject to mandatory tender upon any such mode change.

Redemption of 2004B Bonds

Optional Redemption. The 2004B Bonds are subject to redemption prior to maturity at the option of the City on any Interest Payment Date, in whole or in part, at a redemption price equal to the principal amount of such 2004B Bonds to be redeemed, plus interest accrued thereon to the date of redemption.

Mandatory Redemption. The 2004B Bonds are subject to mandatory redemption on October 1, 2014, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2004B Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Electric Revenue Bonds, Bond Service Account (the "Bond Service Account"), plus accrued interest thereon to the date of redemption, in the principal amount set forth in the following table, without premium; provided that if any such date (other than the maturity date) does not fall on an Interest Payment Date, such date will be deemed to be the immediately following Interest Payment Date:

Term 2004B Bonds

Redemption Date (October 1)	Principal Amount	Redemption Date (October 1)	Principal Amount
2014	\$1,250,000	2022	\$5,300,000
2015	4,100,000	2023	5,550,000
2016	4,200,000	2024	5,775,000
2017	4,425,000	2025	6,000,000
2018	4,575,000	2026	6,250,000
2019	4,775,000	2027	6,475,000
2020	4,950,000	2028	6,725,000
2021	5,150,000	2029†	7,000,000

† Final Maturity.

Selection for Redemption. If less than all of the 2004B Bonds are to be redeemed, the Fiscal Agent shall select the particular 2004B Bonds or portions thereof to be redeemed at random. The portion of any 2004B Bonds of a denomination of more than \$25,000 to be redeemed shall be in the principal amount of \$25,000 or an integral multiple thereof.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of 2004B Bonds to (i) the Owners of the 2004B Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first-class mail to the Owners of 2004B Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of 2004B Bonds.

When notice of redemption has been given as provided in the Resolution, the 2004B Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2004B Bonds at the place specified in such notice of redemption, such 2004B Bonds shall be redeemed and paid at said redemption price. If on the redemption date moneys for the redemption of the 2004B Bonds to be redeemed shall be available therefor on the redemption date, then from and after the redemption date, interest on the 2004B Bonds to be redeemed shall cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE 2004 BONDS

Net Operating Revenues

Pursuant to the Law, the 2004 Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof and interest thereon, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the outstanding 1998 Bonds, the 2001 Bonds and the 2003 Bonds and any other Bonds or Parity Debt issued in the future.

The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses, plus (for purposes of determining compliance with the City's rate covenant only) the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System

designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds. Gross Operating Revenues consist of all the revenues of the Electric System from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction. Operating and Maintenance Expenses are the expenses of operating and maintenance of the Electric System, including payments to certain joint powers agencies and any necessary contribution to the retirement system of the Electric System employees.

The general fund of the City is not liable for the payment of the 2004 Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2004 Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2004 Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2004 Bonds, interest thereon and any premium upon redemption.

Resolution Flow of Funds

Electric Revenue Fund. The City has created the Electric Revenue Fund pursuant to the City Charter, which secures the payment of the Bonds and Parity Debt. The Electric Revenue Fund includes several accounts, namely, the Electric System Maintenance and Operation Account (the "M&O Account"), the Bond Service Account, the Electric Revenue Bonds, Mandatory Sinking Account (the "Mandatory Sinking Account"), the Electric Revenue Bonds, Renewal and Replacement Account (the "Renewal and Replacement Account") and the Electric Revenue Bonds, Surplus Account (the "Surplus Account"). The Master Resolution provides that the Interest Account and the Principal Account shall be created as sub-accounts within the Bond Service Account. The Electric Revenue Fund and all of the accounts and sub-accounts therein are held and administered by the City Treasurer. The 1998 Reserve Account has been created under the Third Supplemental Resolution, the 2001 Reserve Account has been created under the Fourth Supplemental Resolution, the 2003 Reserve Account has been created under the Fifth Supplemental Resolution and the 2004 Reserve Account has been created under the Sixth and Seventh Supplemental Resolutions, all of which are held by the Fiscal Agent.

Application of Gross Operating Revenues. So long as any Bonds remain Outstanding, the Treasurer shall transfer and apply Gross Operating Revenues from and within the Electric Revenue Fund to the following funds and accounts and shall set aside such moneys in such funds in the following amounts, in the following order of priority, the requirements of each fund or account (including requirements arising from any deficiencies caused by the lack of Gross Operating Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund or account subsequent in priority:

First, to the M&O Account, as soon as practicable in each month, the Treasurer shall provide for the payment of the Operating and Maintenance Expenses of the Electric System for that month.

Second, to the Interest Account, as soon as practicable in each month, the Treasurer shall set aside (i) an amount sufficient on a monthly pro rata basis to pay the aggregate amount of the interest which will become due and payable on Bonds with a fixed rate of interest on the next interest payment date (excluding interest for which there are moneys deposited in the Interest Account) and (ii) 110% of the

interest which the Treasurer estimates in his or her reasonable judgment will accrue during that month on Bonds with a variable rate of interest, unless the Interest Account contains at least the amount equal to the interest to become due and payable within the next six months. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made *pari passu* with the payments required to be placed in the Interest Account.

Third, to the Principal Account, as soon as practicable in each month, the Treasurer shall deposit an amount equal to at least (i) one-sixth of any semiannual Bond Obligation becoming due and payable on outstanding Bonds within the next ensuing six months and (ii) one-twelfth of the yearly Bond Obligation becoming due and payable on the outstanding serial Bonds or of the amount becoming due on term Bonds within the next 12 months, provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series shall be refunded on or prior to their due dates or paid from amounts on deposit in a reserve fund maintained for Bonds of that Series, no amounts need be set aside toward such principal. Payments of principal on Parity Debt that are required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made *pari passu* with the payments required to be placed in the Principal Account.

Fourth, to the 1998 Reserve Account, the 2001 Reserve Account, the 2003 Reserve Account, the 2004 Reserve Account and any other reserve account for Bonds established pursuant to a Supplemental Resolution and in any reserve account established for Parity Debt as soon as practicable in each month upon the occurrence of any deficiency therein, (i) one-twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and (ii) the full amount of any deficiency due to any required valuation of the investments in such reserve account until the balance is at least equal to the amount required to restore such reserve account to the amount required to be maintained therein.

Fifth, to the excess earnings or rebate account for the 1998 Bonds, the 2001 Bonds, the 2003 Bonds, the 2004 Bonds and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

Sixth, to the Renewal and Replacement Account, as soon as practicable in each month, the Treasurer shall set aside the amount, if any, required by prior action of the City Council. To date, the City Council has not required the Renewal and Replacement Account to be funded and does not anticipate taking any such action. All amounts in the Renewal and Replacement Account shall be applied to acquisition and construction of renewals and replacements to the Electric System to the extent provision therefore has not been made from other sources.

Seventh, to the Surplus Account, any money remaining in the Electric Revenue Fund after the above transfers and uses have been made. Such money may be: (i) invested in any authorized investments; (ii) used for the redemption of Bonds which are subject to redemption or for purchase in the open market of any Bonds; provided that if the Bonds are subject to redemption prior to maturity, the purchase price shall not exceed the redemption price on the next interest payment date; or (iii) used in any other lawful manner.

The Treasurer shall transfer from the Interest Account to the Fiscal Agent an amount sufficient to pay the interest on the 2004 Bonds as it will become due and payable (including accrued interest on any 2004 Bonds purchased or redeemed prior to maturity). The Treasurer shall transfer from the Principal Account to the Fiscal Agent an amount sufficient to pay the Bond Obligation of the 2004 Bonds maturing by their terms on October 1 of each year in which 2004 Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the

2004 Bonds to be redeemed on that October 1 of each year in which term 2004 Bonds are to be redeemed from amounts on deposit in the Principal Account.

Rate Covenant

The City has covenanted under the Resolution to prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric System during each fiscal year which, after making allowances for contingencies and error in estimates, shall be at least sufficient to pay the following amounts in the order set forth:

- (a) Operating and Maintenance Expenses;
- (b) the interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable;
- (c) all other payments required for compliance with the Resolution or any Supplemental Resolutions; and
- (d) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues.

The charges shall be so fixed that the Net Operating Revenues (which for purposes of determining compliance with this rate covenant shall include the amounts on deposit as the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds) shall be at least 1.10 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above.

2004 Reserve Account

Under the Master Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve fund or account for any Series of Bonds issued thereunder. The Sixth Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2004 Reserve Account. Pursuant to the Sixth and Seventh Supplemental Resolutions, the City shall at all times maintain an amount equal to the 2004 Bond Reserve Requirement (initially, \$8,181,203.99) in the 2004 Reserve Account until the 2004 Bonds are discharged in accordance with the Resolution. The Resolution also requires that there be maintained in the 1998 Reserve Account for the 1998 Bonds, in the 2001 Reserve Account for the 2001 Bonds, and in the 2003 Reserve Account for the 2003 Bonds and in each other debt service reserve account established pursuant to a Supplemental Resolution, the amount, if any, required to be deposited therein.

Moneys in the 2004 Reserve Account will secure only the payment of the 2004 Bonds and may be withdrawn solely (i) to pay principal of and interest on the 2004 Bonds in the event moneys in the Principal Account and the Interest Account are insufficient or (ii) to make the final principal and interest payment on all outstanding 2004 Bonds. Whenever amounts are withdrawn from the 2004 Reserve Account, the amount in said account shall be restored as described above in "Resolution Flow of Funds—*Application of Gross Operating Revenues.*"

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of and interest on the 2004 Bonds. In the event that the 1998 Reserve Account, the 2001 Reserve Account, the 2003 Reserve Account or the 2004 Reserve Account (after January 1, 2005)

contains moneys in excess of the amount required to be maintained therein, all of the excess will be transferred to the Electric Revenue Fund.

At the option of the City, amounts required to be held in the 2004 Reserve Account may be substituted, in whole or in part, by the deposit of a line of credit, letter of credit, insurance policy, surety bond or other credit source in a stated amount equal to the amounts so substituted, provided that, among other things, the substitution of such credit facility will not result in a withdrawal or downgrading of any rating of the 2004 Bonds then in effect.

Additional Bonds and Parity Debt

No Senior Debt. Under the Resolution, the City covenants that no additional bonds, notes or other evidences of indebtedness payable out of Net Operating Revenues shall be issued having any priority in payment of principal or interest from the Electric Revenue Fund or out of Net Operating Revenues payable into such Fund over the Outstanding Bonds.

Additional Bonds and Parity Debt. The Resolution provides that, except Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt, no additional Bonds or Parity Debt shall be issued or incurred unless: (i) the City is not in default under the terms of the Resolution, (ii) either (a) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest fiscal year, or for any 12-consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City, or (b) the estimated Net Operating Revenues for the first complete fiscal year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a Certificate of the City, plus, in either case, at the option of the City, either or both of the items designated under (a) and (b) below, shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any fiscal year thereafter on all Bonds to be Outstanding and all Parity Debt to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt, and (iii) on the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt shall be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

The items, either or both of which may be added to such Net Operating Revenues for the purpose of meeting the restriction in (ii) in the preceding paragraph, are the following:

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such fiscal year or such 12-consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues (or estimated average annual reduction in Operating and Maintenance Expenses) to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City; and

(b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional indebtedness but

which, during all or any part of such fiscal year or such 12-consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such fiscal year or such 12-consecutive month period within the last completed 18-month period, as shown by the Certificate of the City.

For definitions of "Maximum Annual Debt Service" and other capitalized terms used herein, see "APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

Subordinate Debt. Nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City. No representation is made herein by the City as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix H for a specimen of the Insurer's Policy.

The Policy

The Insurer's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Fiscal Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund redemption) and interest on, the 2004 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund redemption, the payments guaranteed by the Insurer's Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2004 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's Policy does not insure against loss of any redemption premium which may at any time be payable with respect to any 2004 Bond. The Insurer's Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2004 Bonds upon tender by an Owner thereof, and (iv) any Preference relating to (i) through (iii) above. The Insurer's Policy also does not insure against nonpayment of principal of or interest on the 2004 Bonds resulting from the insolvency, negligence or any other act or omission of the Fiscal Agent or any other paying agent for the 2004 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Fiscal Agent or any owner of a 2004 Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or

its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2004 Bond or presentment of such other proof of ownership of the 2004 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2004 Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the 2004 Bonds in any legal proceeding related to payment of insured amounts on the 2004 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Fiscal Agent payment of the insured amounts due on such 2004 Bonds, less any amount held by the Fiscal Agent for the payment of such insured amounts and legally available therefor.

The Insurer

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and the Insurer set forth under the heading "BOND INSURANCE." Additionally, the Insurer makes no representation regarding the 2004 Bonds or the advisability of investing in the 2004 Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Insurer Information

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2003, June 30, 2003 and September 30, 2003) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

As of December 31, 2002, the Insurer had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2003, the Insurer had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.2 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Insurer

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services ("Standard & Poor's"), a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA."

Fitch Ratings ("Fitch") rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2004 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2004 Bonds. The Insurer does not guaranty the market price of the 2004 Bonds nor does it guaranty that the ratings on the 2004 Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2004 Bonds are as follows:

Sources:	Series 2004A Bonds	Series 2004B Bonds	Total
Principal Amount of Bonds.....	\$27,500,000	\$82,500,000	\$110,000,000
Plus Original Issue Premium.....	1,906,339	--	1,906,339
Total Sources.....	<u>\$29,406,339</u>	<u>\$82,500,000</u>	<u>\$111,906,339</u>
Uses:			
Deposit to 2004 Construction Fund ⁽¹⁾	\$27,445,328	\$75,015,434	\$102,460,762
Deposit to 2004 Reserve Account.....	1,714,913	6,466,291	8,181,204
Costs of Issuance ⁽²⁾	246,098	1,018,275	1,264,374
Total Uses.....	<u>\$29,406,339</u>	<u>\$82,500,000</u>	<u>\$116,906,340</u>

⁽¹⁾ Includes reimbursement to the City of 2004 Project costs previously incurred. Includes capitalized interest on the 2004A Bonds to October 1, 2005 and estimated capitalized interest on a portion of the 2004B Bonds to October 1, 2005 (assuming an annual interest rate of 3.50% on the 2004B Bonds).

⁽²⁾ Includes Underwriter's discount, bond insurance premium, legal fees, Fiscal Agent fees, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2004 Bonds.

THE 2004 PROJECT

General

The 2004 Bonds are being issued for the purpose of (i) financing the costs of acquisition and construction of a 99.6 MW two unit simple cycle power plant and related transmission lines for the City, (ii) financing the costs of acquisition and construction of certain other additions and improvements for the Electric System, including to the distribution and transmission facilities of the City (the "2004 Project"), (iii) funding a reserve account for the 2004 Bonds, (iv) funding capitalized interest on 2004 Bonds, and (v) paying costs of issuance of the 2004 Bonds.

The Riverside Energy Resource Center

General Description. The principal component of the 2004 Project is the acquisition and construction of a 99.6 MW two unit simple cycle power plant and related transmission lines for the City, designated by the City as its "Riverside Energy Resource Center." The natural gas-fired simple cycle plant will consist of two General Electric LM 6000 SPRINT combustion turbines, rated at 49.8 MW each (net power at site conditions). The City will operate the combustion turbines as peaking units for up to 1,300 hours per turbine annually. The project is being undertaken in part to address the City's future energy needs due to growing demand, to compensate for the expiration of its power purchase agreements with the California Department of Water Resources ("CDWR") in 2005, and to provide a second generation source within the City to meet minimum emergency loads in the event outside transmission resources were unavailable. A delay in implementing the project would result in the City purchasing additional peaking power in the marketplace and significantly diminish the ability of the City to meet minimum load requirements with the loss of external transmission resources.

The Riverside Energy Resource Center will be located on a 16-acre parcel on the northwest corner of the intersection of Jurupa and Payton Avenues at the western edge of the City. The power plant site is located east of the City's existing wastewater treatment plant. Fuel for the facility will be delivered

to the site from a Sempra Utilities' thirty-inch high pressure natural gas transmission line crossing the northeast corner of the site. Electrical transmission interconnections will link the Riverside Energy Resource Center to the City's power grid by connecting to the City's nearby Mountain View Substation using a new 1.2 mile 69-kV transmission line to be constructed by the City on right-of-way to be acquired by the City running along Jurupa Avenue from the project site to the substation. Cooling water for the turbines will consist of potable water. The City will construct potable water supply tap lines and sanitary sewer discharge pipelines to connect to the City's utility services.

The Riverside Energy Resource Center is being developed using an engineer procured contracts approach with the City directly procuring the major plant equipment. On March 23, 2004, the City awarded the contract for the major plant equipment, consisting of two combustion turbine generators and the associated selective catalytic reduction units, to General Electric Packaged Power, Inc. On February 20, 2004, the City issued a Request for Proposal for detailed design, procurement and construction services for the Riverside Energy Resource Center project. The selected firm must have engineered and built at least three similar power plants within the last ten years and one in California within the last five years. The proposals have been received by the City and are currently being evaluated. The design, procurement and construction services contract is expected to be awarded in June 2004. The City plans to begin construction on the Riverside Energy Resource Center project in October 2004. Project commercial operation is scheduled for June 2005 for the first unit and July 2005 for the second unit.

Licenses, Permits and Approvals. The construction and operation of the Riverside Energy Resource Center will require numerous licenses, permits and approvals from various federal, state and local regulatory agencies.

The California Energy Commission ("CEC") and the South Coast Air Quality Management District ("SCAQMD") have principal jurisdiction over the Riverside Energy Resource Center project. The City is in the process of obtaining the SCAQMD review of the City's license applications, its final Determination of Compliance with respect to the Riverside Energy Resource Center and the Authority to Construct permit, which is expected to be issued concurrently with the CEC's Small Power Plant Exemption. A Permit to Operate is expected to be issued by SCAQMD after all construction is complete.

The CEC is the lead agency responsible for permitting the Riverside Energy Resource Center. The CEC process includes an examination of public health and safety, environmental impacts, and engineering aspects of the proposed project, including all related facilities. In addition, the CEC process provides an opportunity for interested parties to intervene and have input in the CEC approval process. The City filed its application for certification with the CEC on April 29, 2004. The CEC is expected to issue its Proposed Decision and Notice of Intent to Adopt a Mitigated Negative Declaration for the Riverside Energy Resource Center in September 2004. The final decision on the Small Power Plant Exemption for the Riverside Energy Resource Center is expected to be issued in October 2004. The appeal period for the CEC action will expire 30 days after the date of the decision, although a recent but unpublished court decision in an unrelated proceeding before the CEC might cause the appeal period to extend an additional 30 days. The City currently is unaware of any potential appellants, or the basis for any such appeal. Moreover, an appeal of the CEC decision would not prohibit the City from proceeding with construction, unless the appellant sought and obtained an injunction, or the CEC stayed the decision. The City believes that the likelihood of any appeal, stay or injunction to be remote. This decision and certification will satisfy all requirements for compliance with the California Environmental Quality Act.

The Riverside Energy Resource Center will be equipped with Best Available Control Technology to control air pollutant emissions. These controls include a NOx Selective Catalytic Reduction system and

CO oxidation systems to reduce emissions. The City has begun the process for procuring all necessary emission reduction credits and expects that such credits will be obtained by July 2004.

The City is in the process of obtaining other permits necessary for the project such as various minor construction and other permits. The City expects that all such permits will be obtained in a timely manner as necessary for project completion and operation.

Major upcoming schedule milestones for the project include:

- Facility Design July 2004
- Energy Commission Approval October 2004
- Commence Construction October 2004
- Commercial Operation (Unit 1) June 2005, (Unit 2) July 2005
- Project Completion August 2005

The City has estimated the total construction cost of the Riverside Energy Resource Center, including contingency, at approximately \$75.0 million. As of April 30, 2004, approximately \$41.0 million or 55% of the total acquisition and construction costs were either paid for or under contract. The total estimated costs of the Riverside Energy Resource Center are as follows:

**Riverside Energy Resource Center
Estimated Project Costs
(\$ in millions)**

City Direct Costs	\$ 2.6
Major Equipment	35.2
Engineer, Procure, and Construction Contract	26.7
Transmission Line and System Modifications	1.5
Permitting and Emission Offsets	2.2
Financing	3.0
Sales tax	2.7
Contingency	<u>1.1</u>
Total	<u>\$75.0</u>

Other Components of the 2004 Project

The majority of the remaining capital expenditures comprising the 2004 Project consist of certain other additions and improvements for the Electric System, including to the City's distribution and transmission facilities. Projects currently scheduled for construction within the next two years, which could be funded with bond proceeds, include approximately \$10.8 million for replacement of obsolete equipment and additions at various substations, including the installation of three power transformers, approximately \$10.7 million for capital improvements at the San Onofre Nuclear Generating Station ("SONGS"), \$4.3 million for the City's program of conversion of overhead lines to underground, and approximately \$2.5 million for conversion of 4 kV distribution lines to 12 kV to replace deteriorated facilities and prevent overloading the 4 kV system. The City may substitute other capital projects determined by the City to be undertaken by the City for the Electric System for any of such remaining components of the 2004 Project.

THE PUBLIC UTILITIES DEPARTMENT

Management of the Public Utilities Department

Under the provisions of the California Constitution and Article XII of the City Charter, the City owns and operates both electric and water utilities for its citizens. The City's Public Utilities Department (the "Department") exercises jurisdiction over the electric and water utilities owned, controlled and operated by the City. The Department is under the management and control of the City Manager, subject to the powers and duties vested in the Board of Public Utilities, and is supervised by the Public Utilities Director who is responsible for design, construction, maintenance and operation of the electric and water utilities.

Management of the Department is as follows:

Mr. Thomas P. Evans, Public Utilities Director, holds a Bachelor of Science degree in Mechanical Engineering from University of California, Davis and a Masters of Business Administration from Golden Gate University. He has been with the City since 2000, and has over 36 years of experience working in the California utilities industry, and has extensive experience in operational management, community relations, customer service, marketing, information systems and human relations.

Mr. David H. Wright, Utilities Deputy Director/Marketing and Customer Service, is a Certified Public Accountant. He received his Bachelor of Arts and Master of Business Administration degrees from California State University, Fullerton. He has been with the City since 1988, and has nearly 16 years of experience in municipal government, including five years as Utilities Assistant Director of Finance and Administration and four years as Deputy Director.

Mr. Stephen H. Badgett, Utilities Assistant Director/Energy Delivery, holds a Bachelor of Science degree in Electrical Engineering from the University of Memphis. He has been with Riverside Public Utilities since 1990 holding positions of Senior and Principal Electrical Engineer. Prior to his work at Riverside Public Utilities, Mr. Badgett was with Memphis Light Gas and Water for 16 years and has been involved with public power for nearly 30 years.

Mr. Dieter P. Wirtzfeld, Utilities Assistant Director/Water, holds a Bachelor degree and a Master of Science degree in Electrical Engineering and Business Administration, respectively, from the University of Nebraska. He has been with the City since 1986, and has nearly 32 years of experience in the municipal utilities field.

Ms. Donna I. Stevener, Utilities Assistant Director/Finance & Resources, is a Certified Public Accountant. She received a Bachelor of Science degree in Business and Public Administration from California Baptist College, Riverside. She has been with the City since 1991, and has 13 years of experience in municipal government, including six years as Public Utilities Finance/Accounting Manager and six years as Utilities Chief Financial Officer. Prior to her work at the City, Ms. Stevener was a finance professional with a national CPA firm for almost nine years, performing accounting, audit and consulting work for a large variety of clients in numerous industries.

Board of Public Utilities

The Board of Public Utilities, created by Article XII, Section 1201 of the City Charter, consists of seven members appointed by the City Council. As set forth in said Article XII, the Board of Public Utilities, among other things, has the power and obligation to: (1) consider the annual budget for the Department during the process of its preparation and make recommendations with respect thereto to the

City Council and the City Manager; (2) within the limits of the budget of the Department, authorize the purchase of equipment, materials or supplies exceeding the sum of \$50,000, and authorize the acquisition, construction, improvement, extension, enlargement, diminution or curtailment of all or any part of its public utility system, and no such purchase, acquisition, construction, improvement, extension, enlargement, diminution or curtailment may be made without such authorization; (3) within the limits of the budget of the Department, make appropriations from the contingency reserve fund for capital expenditures directly related to the appropriate utility function; (4) require of the City Manager monthly reports of receipts and expenditures of the Department, segregated as to each separate utility, and monthly statements of the general condition of the Department and its facilities; (5) establish rates for water and electric revenue producing utilities owned, controlled, or operated by the City, but subject to the approval of the City Council; (6) approve or disapprove the appointment of the Public Utilities Director, who shall be the Department head; (7) make such reports and recommendations to the City Council regarding the Department as it shall deem advisable; (8) designate its own secretary; and (9) exercise such other powers and perform such other duties as may be prescribed by ordinance not inconsistent with any of the provisions of the City Charter.

The present members of the Board of Public Utilities and their terms of appointment are:

Lalit N. Acharya – Chairman of the Board of Public Utilities, appointed to the Board in 1999, term expires March 1, 2007. Mr. Acharya is a professor of communications at a local university.

David E. Barnhart – Appointed to the Board of Public Utilities in 2004, term expires March 1, 2005. Mr. Barnhart is a retired director of transportation.

Peter G. Hubbard – Appointed to the Board of Public Utilities in 1999, term expires March 1, 2007. Mr. Hubbard is a director of the local ambulance company.

Joe Tavaglione – Appointed to the Board of Public Utilities in 2001, term expires March 1, 2005. Mr. Tavaglione is a local contractor/developer.

Conrad Newberry Jr. – Appointed to the Board of Public Utilities in 1997, term expires March 1, 2006. Mr. Newberry is a Performance Contracting Engineer.

Jim Anderson – Appointed to the Board of Public Utilities in 2000. Term expires March 1, 2008. Mr. Anderson is a retired environmental and administrative law attorney.

Robert Stockton – Appointed to the Board of Public Utilities in 2004. Term expires March 1, 2006. Mr. Stockton is a principal/vice president of a consulting civil engineering company.

The Department's offices are located at Riverside City Hall, 3900 Main Street, Riverside, California 92522.

THE ELECTRIC SYSTEM

The Electric System operates as a vertically integrated utility providing service to virtually all electric consumers within the city limits of Riverside, which encompasses 79.1 square miles. The Electric System's power supply requirements are met through (i) purchases of power under long-term power sales agreements, (ii) the City's 40 MW simple cycle combustion turbines (the "Springs Generating Project") and the City's ownership interest in SONGS and (iii) purchases of firm and non-firm energy from several western utilities when it is available at an economical price or when needed to satisfy periods of peak

demand. For the fiscal year ended June 30, 2003, the average number of customers of the Electric System was 98,459 and the total MWh generated and purchased were 2,346,200.

History of the Electric System

The Electric System was established in 1895 and until the 1980s was essentially a sub-transmission and distribution system, though the City did generate part of its own power from 1900 to 1924. Power was purchased exclusively from Edison from 1950 to May 1976. At that time, the City began receiving non-firm energy purchased from the Nevada Power Company and delivered to the City by Edison.

The City has since continued to expand its distribution system and available generation resources to meet the growing demands of its customers. The Electric System provides service throughout the City to domestic, commercial, industrial, agricultural, municipal and other customers.

Existing Facilities

Excluding its ownership interest in the Springs Generating Project and Units 2 and 3 of SONGS, the Electric System is fundamentally a sub-transmission and distribution system. Power is supplied to the City through seven separate 66,000-volt transmission lines owned and operated by Edison. These lines are used for the sole purpose of delivering electric energy from Edison's Vista Substation to the northerly limits of the City, at which connection points are made to the City-owned and operated 66,000-volt sub-transmission system.

The Springs Generating Project (which began commercial operation in October 2002) consists of four natural gas, simple cycle turbine generators (for a total of 40 MW), to be used primarily to serve the Electric System's native load during periods of peak power demand in the City. These facilities will also be used if normal operations of the Electric System are disrupted, and would provide essential emergency services within the City such as hospital care, traffic control and police and fire dispatching.

The City had 1,221 circuit miles of sub-transmission and distribution lines as of the fiscal year ended June 30, 2003. The 593 circuit miles of underground lines are primarily in commercial and new residential areas. There are 14 substations, with a combined capacity of 905 million volt-amperes ("MVA").

SONGS Units 2 and 3 are rated at 1,070 MW and 1,080 MW, respectively, and have been in commercial operation since October 1983 and April 1984, respectively. Edison is the principal owner and operating agent for SONGS Units 2 and 3 and provides transmission of the City's ownership interest. The capacity available to the City from SONGS Units 2 and 3 is 19.2 MW and 19.3 MW, respectively.

The following table sets forth statistical information relating to the facilities of the Electric System for the periods shown. In the table, only the dollar amounts are subject to audit.

ELECTRIC SYSTEM FACILITIES

	Fiscal Year Ended June 30,				
	1999	2000	2001	2002	2003
Utility Plant (less accumulated provision for depreciation) ⁽¹⁾	\$209,107,000	\$203,655,000	\$203,909,000	\$212,056,000	\$254,857,000
Construction in Progress ⁽¹⁾	\$7,300,000	\$12,483,000	\$17,589,000	\$50,856,000	\$ 16,335,000
Distribution—					
Overhead Circuit Miles	546	544	555	540	538
Underground Circuit Miles	515	523	540	576	593
Street Light Circuit Miles	810	820	812	812	823

⁽¹⁾ Dollars rounded to the nearest thousand.

Power Supply

The electricity supplied to the City consists of power from the City's Springs Generating Project and its ownership interest in SONGS, entitlements in the Intermountain Power Project ("IPP") Generating Station, the Palo Verde Nuclear Generating Station ("PVNGS"), the Hoover Upgrading Project, long-term contracts of firm purchases from CDWR, Bonneville Power Administration ("BPA"), Deseret Generation and Transmission Cooperative ("Deseret"), and firm and non-firm energy purchases from other entities. For the fiscal year ended June 30, 2003, the overall average net cost of generation and transmission was 5.5 cents per kilowatt-hour ("kWh").

The various power supply resources available to the City during the fiscal year ended June 30, 2003 are described below. During the fiscal year ended June 30, 2003, the Electric System generated and purchased a total of 2,346,200 MWh of electricity for delivery to customers throughout the City. The following table sets forth the amounts in MWh and percentages of electricity obtained by the City during the fiscal year ended June 30, 2003.

ANNUAL ELECTRICITY SUPPLY⁽¹⁾ Fiscal Year Ended June 30, 2003

Resource	MWh	Percentage
IPP Generating Station.....	1,029,400	44.0%
Firm Contracts (Deseret, Bonneville, CDWR and others).....	675,500	28.8
SONGS	321,800	13.7
PVNGS	97,200	4.1
Hoover Upgrading Project.....	36,200	1.5
Springs Generating Project ⁽²⁾	9,800	0.4
Renewable Resources.....	224,700	9.6
Net Exchange In/(Out).....	(48,400)	(2.1)
Total.....	2,346,200	100.0%

⁽¹⁾ Includes both native load and wholesale power sales.

⁽²⁾ Began commercial operation in October 2002.

The system peak for fiscal year ended June 30, 2003 of 474.2 MW occurred on September 3, 2002 and was 43 MW below the new historic system peak of 517.2 MW set on September 5, 2003. The following table sets forth, in MWh of electricity, the total purchases of power and Electric System peak demand during the periods shown.

TOTAL ENERGY GENERATED AND PURCHASED AND PEAK DEMAND

	Fiscal Year Ended June 30,				
	1999	2000	2001	2002	2003
From Own Generation (MWh).....	288,800	342,000	250,100	313,400	331,600
From Other Sources (MWh).....	1,675,300	1,993,300	2,338,400	2,146,400	2,014,600
System Total (MWh) ⁽¹⁾	<u>1,964,100</u>	<u>2,335,300</u>	<u>2,588,500</u>	<u>2,459,800</u>	<u>2,346,200</u>
System Native Load (MWh).....	1,646,000	1,734,000	1,750,000	1,716,000	1,776,000
System Peak Demand (MW).....	479.2	473.1	463.8	446.6	474.2

⁽¹⁾ Before system losses, except for fiscal year ended June 30, 1999.

Intermountain Power Project. The City has a 7.617% (approximately 133.7 MW) entitlement in the coal-fired IPP Generating Station Units 1 and 2 located near Lynndyl, Utah, which were declared to be commercially operational in June 1986 and May 1987, respectively. The City has entered into a power sales agreement with Intermountain Power Agency (“IPA”), which obligates the City to its share of capacity and energy of the IPP Generating Station on a “take-or-pay” basis. IPA has issued debt for the IPP Generation Station, of which approximately \$281,595,000 in principal amount was payable by the City as of December 31, 2003. During the fiscal year ended June 30, 2003, Unit 1 of the IPP operated at a plant capacity factor of approximately 86.8% and Unit 2 of the IPP operated at a plant capacity factor of approximately 92.9%. In the fiscal year ended June 30, 2003, the IPP Generating Station provided 1,029,400 MWh of energy to the City at an average cost of 4.0 cents per kWh (exclusive of delivery costs).

The IPP Generating Station consists of: (a) a two-unit coal-fired, steam-electric generating plant with a net rating of 1,755 MW and a switchyard located near Lynndyl, Utah; (b) a rail car service center located in Springville, Utah; (c) certain water rights and coal supplies; and (d) certain transmission facilities consisting primarily of the Southern Transmission System. See “Transmission Facilities—Southern Transmission System.”

IPP Generating Station purchasers are 36 utilities (collectively, the “IPP Purchasers”) consisting of the City, and the California cities of Los Angeles, Anaheim, Burbank, Glendale and Pasadena (the “IPP Participants”); PacifiCorp (which merged with Scottish Power), as successor to the obligations of Utah Power & Light Company (“UP&L”); 22 members of IPA and Heber Light & Power Company (collectively, the “Utah Municipal Purchasers”); and six rural electric cooperatives serving loads in the States of Utah, Arizona, Colorado, Nevada and Wyoming (collectively, the “Cooperative Purchasers”). The IPP is operated by the Los Angeles Department of Water and Power (“LADWP”).

LADWP, as operating agent, manages the coal supplies for the IPP. Fuel requirements for the IPP currently average approximately 5.3 million tons per year. LADWP manages long-term coal supply agreements that are capable of supplying coal for in excess of an 80% capacity factor through 2006, and for in excess of a 50% capacity factor through 2010. Additional coal will be purchased through a combination of long-term contracts, spot contracts and from IPA-owned coal properties. In addition, LADWP manages two rail transportation service agreements providing transportation for a minimum of 95% of the coal delivered to the IPP. The balance may be delivered by truck or by train depending on conditions at the time of purchase.

San Onofre Nuclear Generating Station. The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County. The capacity available to the City from SONGS Units 2 and 3 is 19.2 MW and 19.3 MW, respectively.

SONGS has a nominal net generating capability of 2,150 MW. Other owners are Edison, 75.05%; San Diego Gas & Electric Company, 20%; and the City of Anaheim 3.16%. Units 2 and 3 of SONGS became operational on August 18, 1983 and April 1, 1984, respectively. The City's share of construction costs for the project was approximately \$193 million, which was financed mainly through revenue bonds. In the fiscal year ended June 30, 2003, SONGS provided 321,800 MWh of energy to the City at an average cost of 7.1 cents per kWh (exclusive of delivery costs).

SONGS is operated and maintained by Edison under an agreement with the City and the other owners that expires upon termination of the easement for the plant which is in the year 2050. The four-member SONGS' Board of Review approves the budget for capital expenditures and operating expenses. The City and other owners each have one representative on the board. The participation agreement provides that each owner is entitled to its proportionate share of benefits of and pays its proportionate share of costs and liabilities incurred by Edison for construction, operation and maintenance of the project; each owner's obligation is several and not joint or collective.

The City's share of the costs to purchase and process nuclear fuel for SONGS is funded by Electric System revenues. The cost of nuclear fuel is amortized to expense using the "as burned" method, or as utilized. Prior to its utilization it is considered inventory. In accordance with the Nuclear Waste Policy Act of 1982, the City is charged a fee for the disposal of nuclear fuel at the rate of one mill per kWh on the City's share of electricity generated from SONGS. The City currently has no agreement that fixes its liability for decommissioning costs for, or its administrative responsibility with respect to, the SONGS facilities.

The original operating license for SONGS Units 2 and 3 was set to expire year end 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3, respectively. The owners of the plant have not yet agreed to extend operations until 2022. The plant site easement for SONGS terminates in May 2050. The plant must be decommissioned and the site restored by the time the easement terminates. In a study dated October 2001 and prepared by ABZ, Incorporated on behalf of the participants in SONGS, the cost of decommissioning SONGS Units 2 and 3 was estimated to be approximately \$2.378 billion based on 2001 dollars. The City's share of such cost is approximately \$42.6 million. The City anticipates receiving a new estimate of decommissioning costs every three years. As required by regulations of the Nuclear Regulatory Commission (the "NRC") and State law, each of SONGS' participants has established trust funds and is collecting money in those funds over time to meet their respective obligations to pay for the decommissioning of SONGS. The City had deposited \$39.7 million in its trust fund as of December 31, 2003.

Edison currently stores spent nuclear fuel in on-site spent fuel pools near the units. The pools are expected to be filled in the year 2006 or 2007. Edison has advised the City that it believes that until a permanent repository for high-level nuclear waste becomes available, additional on-site spent fuel storage is required by using dry casks similar to those currently used at certain other nuclear plants. On behalf of its owners, Edison is currently seeking all necessary approvals and authorizations and has commenced the engineering work to construct dry cask storage at the San Onofre site.

Hoover Up-rating Project. Modern insulation technology has made it possible to "uprate" the nameplate capacity of existing generators. The Hoover Up-rating Project consists principally of the uprating of the capacity of the 17 existing generating units at the hydroelectric power plant of the Hoover Dam, located approximately 25 miles from Las Vegas, Nevada. The City has a 31.9% (30 MW) entitlement interest in SCPPA's approximately 94 MW interest in the total capacity and allocated energy of the Hoover Up-rating Project. The City has executed a power sales contract with SCPPA under which the City has agreed to make monthly payments on a "take-or-pay" basis in exchange for its share of

SCPPA's proportionate share of capacity and allocated energy. As of December 31, 2003, SCPPA had outstanding \$22,590,000 principal amount of its bonds in connection with the Hoover Upgrading Project. In the fiscal year ended June 30, 2003 the Hoover Upgrading Project provided 36,200 MWh of energy to the City at an average cost of 1.8 cents per kWh (exclusive of delivery costs).

The lower Colorado River has been included in a Critical Habitat Designated Area ("Habitat"), which required the Bureau of Reclamation (the "Bureau") to prepare and file with the United States Fish and Wildlife Service (the "Service") a Biological Assessment of the effect of its operations of the lower Colorado River on endangered species within the Habitat. Subsequently, the Service issued a Biological Opinion regarding the Bureau's operations and will outline remedial actions to be taken to correct any adverse effects to endangered species. The Hoover customers, together with certain other parties, are working on a multi-species conservation plan in cooperation with the Bureau and the Service to mitigate operational scenarios which would adversely affect the Hoover Participants and the other parties.

Palo Verde Nuclear Generating Station. The City has a 5.4% (11.7 MW) entitlement interest in SCPPA's 5.91% ownership interest in PVNGS, including certain associated facilities and contractual rights, 5.56% ownership in the Arizona Nuclear Power Project ("ANPP") High Voltage Switchyard and associated contractual rights, and 6.55% share of the rights to use certain portions of the ANPP Valley Transmission System. The City has entered into a power sales agreement with SCPPA which obligates the City to its share of capacity and energy on a "take-or-pay" basis. SCPPA has issued bonds for PVNGS of which approximately \$712,265,000 principal amount were outstanding as of December 31, 2003. In the fiscal year ended June 30, 2003, PVNGS provided 97,200 MWh of energy to the City at an average cost of 10.8 cents per kWh (exclusive of delivery costs). SCPPA restructured its debt for PVNGS in 1997 to accelerate the repayment of all but approximately \$148,000,000 in principal amount of such debt by July 1, 2004. As a result, the cost of power from PVNGS will be artificially high through fiscal year 2003-04, but is projected to be significantly lower thereafter. The City expects the cost of PVNGS power to be approximately 3 cents per kWh in fiscal year 2004-05 (exclusive of delivery costs).

PVNGS consists of three nearly identical nuclear electric generating units located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona. Units 1, 2 and 3 (each designed for a 40-year life) achieved firm operation on January 27, 1986, September 18, 1986, and January 19, 1988, respectively. Each PVNGS unit is currently rated at 3,893 MW (thermal). The maximum dependable capacity of Units 1, 2 and 3 under adverse atmospheric conditions is 1,243 MW, 1,243 MW and 1,247 MW, respectively. For the fiscal year ended June 30, 2003, Units 1, 2 and 3 operated at a capacity factor of 86.9%, 101.7% and 90.0%, respectively, and generated 9.5 million MWh, 11.1 million MWh and 9.8 million MWh, respectively.

Units 1, 2 and 3 each operate under a 40-year Full-Power Operating License from the NRC. The Full-Power Operating Licenses for Units 1, 2 and 3 expire in 2024, 2025 and 2027, respectively. SCPPA has informed the City that all other necessary permits, licenses and approvals necessary to operate the PVNGS have been secured. Arizona Public Service Company ("APS") is the Construction Manager and Operating Agent of PVNGS and the Westwing 500 kV Switchyard. The high-voltage switchyard portion of the PVNGS was constructed by and is being managed by Salt River Project Agricultural Improvement and Power District.

The co-owners of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. SCPPA's records indicate that the external account for decommissioning was approximately \$116,305,000 at June 30, 2003. Based on the most recent 2001 estimate of decommissioning costs of TLG Engineering, SCPPA has advised the City that it estimates that its share of the amount required for decommissioning of PVNGS is approximately 94% funded. Under the foregoing assumptions, an additional \$11,243,000 would be required for SCPPA to currently fully fund, together

with interest earnings, its share of decommissioning costs. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs. SCPPA has advised the City that it anticipates receiving a new estimate of decommissioning costs every three years.

Springs Generating Project. The City used proceeds of the 2001 Bonds to finance the construction of the Springs Generating Project comprised of four natural gas, simple cycle turbine generators, each with a capacity of 10 MW. The Springs Generating Project is used primarily during periods of peak power demand in the City. The Springs Generating Project began commercial operation in October 2002. As is typical of reserve and peaking resources, the average cost per kWh of power generated at the Spring Generating Project is comparatively expensive. For the fiscal year ended June 30, 2003, the Springs Generating Project generated 9,800 MWh at an average cost of 28.8 cents per kWh.

California Department of Water Resources. The City has entered into two power purchase agreements with CDWR for 23 MW and 30 MW of seasonal capacity and associated energy. Deliveries of CDWR power under these agreements began in May 1996 and are made available at Edison's Vincent Substation, with the California Independent System Operator (the "ISO") providing the remaining transmission to the City. Under the terms of the agreements, service is provided each May through October. The agreements stipulate that energy deliveries shall be up to 58%. Each percentage represents a monthly capacity factor. Each agreement provides for fixed energy rates through 1996 and fixed capacity rates through 2001 with annual renegotiations thereafter. The energy and capacity components have been negotiated annually since 1997 and 2002, respectively.

CDWR has unofficially informed the City of its expectation that both power purchase agreements will terminate in accordance with their terms by the end of 2004.

The agreements described above are not related to CDWR's agreements addressing California's power supply crisis, and are not payable from retail end use customer payments for electricity. See "DEVELOPMENTS IN THE ENERGY MARKETS."

Deseret Agreement. On March 31, 1992, the City entered into a Power Sale Agreement (the "Deseret Agreement") with Deseret, providing for the purchase by the City from Deseret of 52 MW of electric capacity and certain associated energy from Deseret's entitlement to the output of the Hunter Generating Station located near the City of Castle Dale, Utah and Deseret's Bonanza Generating Station located near the City of Vernal, Utah. In the fiscal year ended June 30, 2003, the City purchased 404,600 MWh of energy through the Deseret Agreement at an average cost of 2.3 cents per kWh (exclusive of delivery costs).

The City notified Deseret of its intention to terminate the Deseret Agreement effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after June 30, 2002 through the term of the agreement in 2009. In exchange, the City paid Deseret \$25 million from Electric Fund reserves, which is reflected on the balance sheet of the Electric System as unamortized purchased power. On July 1, 2002, the Electric System began to realize the benefits related to the price reductions and will amortize the \$25 million over the remaining term of the agreement using the straight-line method. Unless sooner terminated at the option of the City, the Deseret Agreement is to terminate on December 31, 2009.

Bonneville Power Administration Power Sales Agreements. The City and Bonneville have entered into two power sales agreements (exchange contracts), which make available to the City at the Nevada-Oregon border, 23 MW and 60 MW, respectively, of power for the summer season and 16 MW and 15 MW, respectively, of power during the winter season. Transmission for the first power sales

agreement is provided to the City under an agreement with the cities of Burbank and Pasadena in California by means of the Pacific direct current intertie to the border of the ISO's system in the Los Angeles area and then by the ISO to the City. Transmission for the second agreement is also provided to the City entirely by the ISO. These power sales agreements will terminate on February 1, 2011 and May 1, 2016, respectively, or upon termination of certain other specified agreements. Under the terms of the exchange contracts, the City paid Bonneville \$1,038,338 and received 89,253 MWh of electricity during peak usage and returned 137,660 MWh of electricity to Bonneville during off peak periods for the fiscal year ended June 30, 2003.

A portion of the capacity charges for the first power sales agreement may be increased by Bonneville as a result of uncertainty in the western power market. Although the amount of any anticipated increase cannot be determined, due to the terms of the agreements and the relatively small amount and seasonal nature of the purchases from Bonneville, the overall fiscal impact to the City is not anticipated to be significant.

Renewable Resources. The City Council and the Board of Public Utilities approved a Renewables Portfolio Standard ("RPS") on July 8, 2003 and June 6, 2003, respectively. This standard sets a goal of reaching a twenty percent level of renewable power in the City's energy portfolio by 2015, a goal that is more aggressive than that required of the investor-owned utilities ("IOUs") pursuant to Senate Bill 1078. Recognizing that renewable energy is usually more expensive than conventional resources, RPS also states that the addition of renewable resources will not cause systemwide rates to increase by over 5% from the 2003 levels. In an effort to increase the share of renewables in the City's power portfolio, the City entered into agreements with various entities described below. A fundamental principle pursued by the City in entering into the power purchase agreements described below is that all energy purchased by the City be recognized by the CEC as energy generated by a renewable resource to meet the RPS.

County of Riverside Power Purchase Agreement. The City and the County of Riverside have entered into a five-year power purchase agreement for 1.2 MW of landfill gas energy generated from the Badlands Landfill in Moreno Valley, California. The power purchase agreement was effective on October 10, 2003 and will terminate on December 31, 2008. The City will pay 5.4 cents per kWh for energy delivered under this agreement.

NM Mid Valley GENCO LLC Power Purchase Agreement. The City and NM Mid Valley GENCO LLC have entered into a five-year power purchase agreement for 2.5 MW of landfill gas energy generated from the Mid Valley Sanitary Landfill in Rialto, California. The agreement was effective on February 27, 2003 and will terminate on December 31, 2007. The project began producing energy on April 21, 2003. In the fiscal year ended June 30, 2003, the City purchased 2,815 MWh of energy under this agreement at an average cost of 5.8 cents per kWh.

NM Milliken GENCO LLC Power Purchase Agreement. The City and NM Milliken Genco LLC have entered into a five-year power purchase agreement for 2.5 MW of landfill gas energy generated from the Milliken Sanitary Landfill in Ontario, California. The agreement was effective on February 27, 2003 and will terminate on December 31, 2007. The project began producing energy on July 17, 2003. Under the terms of this agreement, the City will pay 5.85 cents per kWh for energy produced.

WINTEC-Pacific Solar, LLC Power Purchase Agreement. On January 28, 2003 the City and WINTEC-Pacific Solar, LLC entered into a fifteen-year power purchase agreement for up to 5 MW of wind energy generated from a project near Palm Springs, California. Due to unforeseen circumstances, the seller was only able to construct 2 Vestas V47 660 KW wind turbine generators at the project location

with generating capacity of 1.32 MW that began producing energy on December 26, 2003. Under the terms of the Agreement, the City will pay 4.4 cents per kWh for energy purchased.

Salton Sea Power LLC Power Purchase Agreement. The City and Salton Sea Power LLC entered into a ten-year power purchase agreement for 20 MW of geothermal energy generated by a facility located in Imperial County, California. The City takes delivery of the energy at the Mirage Substation, the point where the ISO Controlled Grid interconnects with the Imperial Irrigation District's electric system. According to the agreement that was effective on May 20, 2003 the City shall purchase the unit contingent firm energy from Salton Sea Unit 5 beginning June 1, 2003 through May 31, 2013. The City also has the option to purchase up to 25 MWh of additional energy for a term up to thirty-one consecutive twenty-four hour days if offered by the seller. For the fiscal year ended June 30, 2003, the City purchased 14,368 MWh of energy at an average cost of 6.1 cents per kWh.

Other Power Purchases. The City also supplements the energy available from its firm resources with energy purchased from other suppliers throughout the western United States. These purchases are made under the Western Systems Power Pool Agreement and numerous bilateral agreements between the City and various suppliers. In fiscal year ending June 30, 2003, the City purchased 675,500 MWh of firm energy (about 28.8% of its total energy) through short-term and long-term contracts. The City provides for its energy needs by dispatching power from generating plants in which it has an ownership share, from power sales agreements, forward purchase contracts, short term (monthly, weekly, daily or hourly) purchases it makes in the forward market and firm and non-firm purchases on the spot market. The cost of obtaining the necessary energy will depend upon contract requirements and the current market price for energy. Spot market prices are dependent upon such factors as the availability of generating resources in the region and weather conditions such as ambient temperatures and the amount of rainfall or snowfall. Generating unit outages, dry weather, hot or cold temperatures, time of year and other factors can all affect the supply and price of energy. Spot market prices for energy have fluctuated dramatically during recent years. See "DEVELOPMENTS IN THE ENERGY MARKETS."

Wholesale Power Trading

In recent years, significant changes occurred within California's electric power industry, and management of power resources on a day-to-day basis became critical to the financial stability of an electric utility. In response to these changes, in October 1998 the City adopted formal policies for the administration of energy risk management activities within the Power Resources Division of the Electric Utility. These policies define the limits for power trading activities to mitigate and reduce risks associated with this business activity. The City also appointed an Energy Risk Manager in 1999 to oversee the development of a formalized financial risk management program for power supply activities.

Energy Risk Management and Counterparty Credit

The City's risk management policies call for a Risk Management Committee that has responsibility to oversee compliance with the risk management policies. The committee is chaired by the Public Utilities Director and includes the Utilities Assistant Director/Finance & Resources, City Finance Director, Utilities' Energy Risk Manager and Deputy City Attorney.

The City's primary objective is to reduce the cost of power to its customers while maintaining the reliability, efficiency and safety of electric operations. The City seeks to hedge its power costs, and speculative trading activities typically associated with a power trading organization are prohibited under its risk management policies.

To help meet the City's mission of highest quality electric service at the lowest possible rates, the City has implemented a comprehensive Risk Management Policy for its power supply function. The major purpose of this policy is to provide guidance and procedures to manage risks surrounding the purchase of power supply. The policy also defines the limits for activities in this area and specifically prohibits speculation in power supply purchasing. In addition, a Counterparty Credit Risk Policy has been adopted by the City Council, and implemented by the Utilities' Energy Risk Manager, which provides a necessary framework for measuring credit risk exposure and assessing counterparty quality. The objective of the Counterparty Credit Risk Policy is to preserve the City's capital, liquidity, and power supply reliability by limiting counterparty credit risk and supplier concentration to acceptable levels.

Over the last several years, transactions entered into under these policies include forward power purchases, exchanges, optimization transactions, sales of excess resources, and trading into various market hubs to balance to load requirements of Electric System customers.

Transmission Facilities

Southern Transmission System. In connection with its entitlement to IPP power, the City has acquired a 10.2% (195 MW) entitlement in SCPPA's share of the transfer capability of the Southern Transmission System. Among other things, the STS provides for the transmission of energy from the IPP Generating Station to the California transmission grid. SCPPA's interest in the Southern Transmission System provides approximately 1,920 MW of transfer capability. As of December 31, 2003, SCPPA had outstanding approximately \$968,355,000 principal amount of its bonds, including refunding bonds, to finance making payments-in-aid of construction with respect to the Southern Transmission System. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance.

The Southern Transmission System consists of a 500 kV direct current transmission line from the coal-fired, steam-electric generation station and switchyard located near Lynndyl, Utah, to Adelanto, California, approximately 490 miles in length, together with an AC/DC converter station at each end.

Mead-Phoenix Transmission Project. Originally, in connection with its entitlement to PVNGS power, the City has acquired a 4.0% (12 MW) entitlement to SCPPA's share of the Mead-Phoenix Transmission Project other than the SCPPA interest acquired for the Western Area Power Administration ("Western"). As of December 31, 2003, SCPPA had outstanding approximately \$71,915,000 principal amount of its bonds, including refunding bonds, to finance its interest in the Mead-Phoenix Transmission Project. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance.

The Mead-Phoenix Transmission Project consists of a 256-mile, 500-kV alternating current transmission line that extends between a southern terminus at the existing Westwing Substation (in the vicinity of Phoenix, Arizona) and a northern terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. The line is looped through the 500-kV switchyard constructed in the existing Mead Substation in southern Nevada with transfer capability of 1,300 MW. By connecting to Marketplace Substation, the Mead-Phoenix Transmission Project interconnects with the Mead-Adelanto Transmission Project (as described below) and with the McCullough Substation. The Mead-Phoenix Transmission Project is comprised of three project components. SCPPA has executed an ownership agreement providing it with an 18.3077% member-related ownership share in the Westwing-Mead project component, a 17.7563% member-related ownership share in the Mead Substation project component, and a 22.4082% member-related ownership

share in the Mead-Marketplace project component. Other owners of the line are APS, MS-R Public Power Agency, Salt River Project and the City of Vernon, California. The commercial operation date for the project was May 15, 1996.

Mead-Adelanto Transmission Project. In connection with the Mead-Phoenix Transmission Project, the City has acquired a 13.5% (118 MW) entitlement to SCPPA's share of the Mead-Adelanto Transmission Project. The Mead-Adelanto Transmission Project consists of a 202-mile, 500-kV AC transmission line that extends between a southwest terminus at the existing Adelanto Substation in southern California and a northeast terminus at Marketplace Substation. By connecting to Marketplace Substation, the line interconnects with the Mead-Phoenix Transmission Project and the existing McCullough Substation in southern Nevada. The line has an initial transfer capability of 1,286 MW. SCPPA has executed an ownership agreement providing it with a total of a 67.9167% member-related ownership share in the project. The other owners of the line are MS-R Public Power Agency and the City of Vernon. As of December 31, 2003, SCPPA had outstanding approximately \$229,175,000 principal amount of its bonds, including refunding bonds, to finance its interest in the Mead-Adelanto Transmission Project. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance. The commercial operation date for the project was May 15, 1996, which coincided with the completion of the Mead-Phoenix Transmission Project.

Independent System Operator

The City Electric System serves as its own scheduling coordinator with the California Independent System Operator ("ISO") and has served, to a limited degree, as the scheduling agent, under a Utility Services Agreement, for the City of Banning. Services include the scheduling of firm and non-firm energy from various sources, including the Western Systems Power Pool. The City of Banning shares the cost of the City Electric System's Power Supply Operations Center.

On July 10, 2002, the City notified the ISO of its intent to become a Participating Transmission Owner ("PTO") by turning over operational control of the City's transmission entitlements (the "ISO-Transferred Entitlements") to the ISO effective January 1, 2003. In November 2002, the City executed the Transmission Control Agreement ("TCA") between the ISO and the PTOs.

Certain of the City's ISO-Transferred Entitlements relate to transmission facilities, including the Southern Transmission System, that were financed by SCPPA utilizing tax-exempt bonds (the "Authority's Bonds"). The City executed certain transmission service contracts with SCPPA that prohibit the City from taking any action that would adversely affect the tax-exempt status of the Authority's Bonds (including bonds relating to the Southern Transmission System). If the City were to be found to have breached such contractual obligation, the City could be subjected to significant financial liability. The TCA executed by the City and submitted by the ISO on November 19, 2002 for approval by the Federal Energy Regulatory Commission ("FERC") contained certain withdrawal provisions which the City believes will protect the tax-exempt status of the Authority's Bonds and satisfy the City's contractual obligation to SCPPA under its transmission service contracts.

On January 1, 2003, the City became a PTO with the ISO, entitling the City to receive compensation for the use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement ("TRR") as approved by the FERC. The City now obtains all of its transmission requirements from the ISO. The California investor owned utilities, CDWR, and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement to the FERC in

July 2003, subject to the FERC's acceptance of this settlement agreement for filing. The settlement agreement disposes of all the City's TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. These TRR issues are not expected to be resolved until early 2005.

If the City does not prevail in this litigation, up to \$9.2 million of transmission revenue received through December 31, 2003 may have to be refunded to the ISO. These amounts have been set aside in a reserve account pending the outcome of this litigation. In addition, the City's transmission revenue would likely be reduced by approximately \$10.4 million annually from amounts projected to be received in 2004.

Customers and Energy Sales

The following tables set forth the average number of customers and total energy sold during the periods shown.

AVERAGE NUMBER OF CUSTOMERS

	Fiscal Year Ended June 30,				
	1999	2000	2001	2002	2003
Domestic	82,937	83,637	85,584	86,874	88,637
Commercial.....	8,859	9,050	9,087	9,092	9,287
Industrial.....	292	324	393	398	396
Other.....	125	136	140	139	139
Total – all classes	92,213	93,147	95,204	96,503	98,459

ENERGY SOLD (Millions of kWh)

	Fiscal Year Ended June 30,				
	1999	2000	2001	2002	2003
Domestic	575	594	610	600	618
Commercial.....	406	436	432	434	451
Industrial.....	619	651	654	629	658
Wholesale Sales.....	151	419	600	541	378
Other.....	46	53	54	53	49
Total kWh Sold ⁽¹⁾	1,797	2,153	2,350	2,257	2,154

⁽¹⁾ The difference between the total kWh generated and purchased and total kWh sold is due to transmission and distribution system losses.

Many of the Electric System's industrial customers have a load of under 500 kW. The Electric System's largest customer and its second largest customer provided approximately 3.2% and 2.8%, respectively, of its revenues for the fiscal year ended June 30, 2003. The Electric System's commercial and industrial customer base, comprising its five largest customers, provided approximately 11.0% of its revenues for the fiscal year ended June 30, 2003. No other customer of the Electric System provided more than 0.7% of its revenues for the fiscal year ended June 30, 2003.

Electric Rates and Charges

The City is obligated by its Charter and by the resolutions under which it has electric revenue bonds outstanding to establish rates and collect charges in an amount sufficient to meet its operation and maintenance expenses and debt service requirements, with specified requirements as to priority and coverage. Electric rates are established by the Board of Public Utilities and subject to approval by the City Council. Electric rates are not subject to regulation by the CPUC or by any other State agency.

Although its rates are not subject to approval by any federal agency, the City is subject to certain ratemaking provisions of the federal Public Utility Regulatory Policies Act of 1978 ("PURPA"). PURPA requires state regulatory authorities and nonregulated electric utilities, including the City, to consider certain ratemaking standards and to make certain determinations in connection therewith. The City believes that it is operating in compliance with PURPA.

At present, the Electric System has 14 rate schedules in effect. The City provides no free electric service. The current electric rates were established by the Board of Public Utilities, approved by the City Council and became effective on November 1, 2003, except for Schedules NEM (Net Energy Metering) and ED (Economic Development) which became effective on December 1, 2003.

In January 1998, the City began collecting a surcharge for public benefit programs on customer utility bills. This surcharge is mandated by State legislation (*i.e.*, AB 1890) and is restricted to various socially-beneficial programs and services.

On June 4, 2002, the City Council unanimously approved a resolution implementing rate increases for each of the following three fiscal years, and revised the Electric Rules, Fees and Charges. The electric rate increases resulted in 3.4% and 3.1% overall increases effective November 1, 2002 and November 1, 2003, respectively, and will result in a 2.2% overall increase effective November 1, 2004. A portion of the rate increases will be used to increase the amount of cash reserves held by the Electric System, and 0.5% of the rate increase (approximately \$900,000) effective November 1, 2002 will be used to fund the expanded overhead to underground and accelerated cable replacement programs. The changes to the fees and charges for the Electric System are designed to recover the actual cost of service.

The Electric System's base rates have been changed seven times over the period beginning January 1, 1984. The following table sets forth the percentage increase in rates for the indicated customer classes. Such percentage changes do not reflect changes in the power cost adjustment account.

PERCENTAGE INCREASE IN ELECTRIC RATES^{(1) (2)}

Effective Date	Overall System	Residential	Commercial	Industrial⁽³⁾
January 1, 1984.....	7.8%	7.8%	7.8%	7.8%
May 1, 1991.....	4.0	4.7	3.1	4.3
December 1, 1992.....	5.0	6.5	6.5	2.5
July 28, 1993.....	1.4	2.1	2.1	0.0
January 1, 1998 ⁽⁴⁾	2.85	2.85	2.85	2.85
November 1, 2002 ⁽⁵⁾	3.4	4.0	3.0	3.0
November 1, 2003 ⁽⁵⁾	3.1	3.25	3.0	3.0
November 1, 2004 ⁽⁵⁾	2.2	2.5	2.0	2.0

- (1) Since March 1984, the City has modified its electric rates four times through changes in the Power Cost Adjustment Factor (the "PCAF"). These changes were designed to refund to the customers \$3,893,437 obtained from Edison through settlement of wholesale rate cases.
- (2) From July 1, 1989 to December 31, 1990, the City's customers received a 0.779¢ "credit" per kWh used. This equates to an overall revenue reduction of 5% during the relevant period.
- (3) Prior to August 1, 1988, when the City implemented its own industrial Time-of-Use ("TOU") rates, certain industrial TOU customers were charged rates equal to those charged by Edison in surrounding areas. These customers were subject to any changes in rates initiated by Edison, which changed its rates nine times for a cumulative increase of 5.3% between January 1, 1984 and August 1, 1988. In addition, these customers were exempt from the PCAF, including refunds.
- (4) Public benefit surcharge pursuant to AB 1890.
- (5) Three-year rate increase approved by City Council on June 4, 2002.

Capital Improvement Program

Beginning on July 1, 2004, the City estimates that it will invest up to \$166.7 million in capital improvements to the Electric System over the next five years. The Capital Improvement Program will be funded with bonds proceeds, rate revenues and contributions in aid from developers. Approximately \$75.0 million will be spent on the Riverside Energy Resource Center power plant project, with the majority of the remaining capital expenditures dedicated to improving and updating the distribution and transmission system.

Other major projects scheduled for construction are \$31.2 million for recurring projects (small system improvements, services to customers and purchases of certain types of equipment including transformers, meters, capacitors and minor substation equipment), \$18.1 million for capital improvements at SONGS, \$13.5 million for replacement of obsolete equipment and additions at various substations, including the installation of three power transformers, \$7.5 million for relocating facilities due to the Caltrans 1-215/91/60 Interchange (over 90% of which will be funded by the State of California), \$6.3 million for the overhead to underground program, \$4.5 million for replacement of deteriorating underground cable, \$4.0 million for conversion of 4 kV distribution lines to 12 kV to replace deteriorated facilities and prevent overloading the 4 kV system, \$3.1 million for lighting and communications improvements, \$2.0 million in major track distributions to serve new customers, and \$1.4 in small miscellaneous projects.

Employee Relations

As of June 30, 2003, 273 City employees were assigned specifically to the Electric System. Certain functions supporting Electric System operations, including meter reading, customer billing and collections, are performed by the staff of the Department. Substantially all of the non-management City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers ("IBEW"). The City and IBEW are parties to a Memorandum of Understanding that expires on

March 31, 2004. Negotiations for a successor contract are underway. The Electric System has faced no strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future. See also "APPENDIX A—CITY OF RIVERSIDE ECONOMIC AND FINANCIAL INFORMATION—Employee Relations."

Retirement benefits to City employees, including those assigned to the Electric System, are provided through the City's participation in the Public Employees Retirement System (PERS) of California. See Note 1 to "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEARS ENDED JUNE 30, 2003 AND JUNE 30, 2002" for further discussion.

Insurance

The Electric System's insurance needs are handled by the Risk Management Division of the City's Finance Department. The City maintains cash reserves for liability and workers' compensation coverage based on the City's Risk Manager and an outside insurance consultant. The City, including the Electric System, is completely self-insured for general liability. It has a self-insured retention of \$4 million for workers' compensation, with insurance coverage up to \$25 million. The City maintains property insurance on most City real property holdings and personal property contents up to an aggregate of \$333 million, subject to a \$250,000 deductible. Earthquake and flood coverage has a deductible of 5% for earthquake and 2% for flood, with a \$15 million limit. All property valued at over \$250,000 is insured at full replacement value based on periodic appraisals and annual CPI adjustments.

Seismic Issues

The City is located in a seismically active region of Southern California. Three major active earthquake faults are located within 20 miles of Electric System facilities. In addition, many of the transmission and generation facilities relied upon by the Electric System are located at or near major active earthquake faults. Although the City has not experienced significant earthquake-related damage to its facilities, the City's Electric System and its power supply could be adversely affected by a major local earthquake. See "RISK FACTORS—Casualty Risk."

In October 1999, Duke Engineering and Services ("Duke") completed a comprehensive seismic assessment of all of the Electric System's electricity distribution substations, and recommended a number of minor improvements to enhance bracing, anchoring and reinforcing to reduce displacement during an earthquake. As of December 31, 2003, 90% of these improvements had been completed, and the City anticipates completing the remaining work within the next six months.

Electric System Litigation

Pending lawsuits and other claims against the City with respect to the Electric System are incidental to the ordinary course of operations of the Electric System and are largely covered by the City's self-insurance program. In the opinion of the Electric System's management and the City Attorney, such lawsuits and claims will not have a materially adverse effect upon the financial position of the Electric System. See "LITIGATION."

Financial Results of the Electric System

Revenues. Gross revenues from the sale of electricity increased from approximately \$170,581,000 in the fiscal year ended June 30, 1999 to approximately \$202,089,000 in the fiscal year

ended June 30, 2003, an increase of 18.5%. The following table sets forth such electric sales during the periods shown.

**REVENUES FROM SALES OF ELECTRICITY
(In Thousands)**

	Fiscal Year Ended June 30,				
	1999	2000	2001	2002	2003
Domestic	\$ 61,674	\$ 64,315	\$ 65,426	\$ 64,625	\$ 68,649
Commercial.....	43,010	46,389	45,478	46,265	48,974
Industrial.....	49,796	52,210	51,558	49,487	52,380
Other.....	5,190	5,739	5,733	5,794	5,619
Wholesale Sales ⁽¹⁾	10,911	18,209	89,254 ⁽²⁾	47,885	17,806
Transmission Revenue ⁽³⁾	-	-	-	273	8,661
Total.....	<u>\$170,581</u>	<u>\$186,862</u>	<u>\$257,449</u>	<u>\$214,329</u>	<u>\$202,089</u>

(1) Includes ancillary services revenues through December 31, 2001.

(2) Increase from prior fiscal year was due primarily to an increase in sales of excess energy caused by additional block energy purchases to cover peak demand and to protect the City from the volatile energy market.

(3) New transmission revenues as a result of becoming a Participating Transmission Owner with the California Independent System Operator on January 1, 2003.

The table below sets forth the average billing price per kilowatt-hour of the various customer classes during the last five fiscal years.

**AVERAGE BILLING PRICE
(Cents Per Kilowatt-Hour)**

	Fiscal Year Ended June 30,				
	1999	2000	2001	2002	2003
Domestic	10.7	10.8	10.8	10.8	11.0
Commercial.....	10.6	10.6	10.6	10.6	10.8
Industrial.....	8.2	8.0	7.9	7.8	7.9
Other.....	11.3	10.8	11.1	11.2	11.9
Average – All Classes Combined.....	9.8	9.7	9.7	9.7	9.8

Operating Expenses. A staff of 273 persons is employed by the City to operate and maintain the Electric System. For the period ending June 30, 2003, the total operating expenses of the Electric System were \$160,251,000 excluding depreciation.

Operating expenses (excluding depreciation) increased from \$148,036,000 in the fiscal year ended June 30, 1999 to \$160,251,000 in the fiscal year ended June 30, 2003, an increase of 8.0%. With the exception of power supply costs (including purchased power and transmission expenses), overall operating expenses increased from \$21,583,000 for fiscal year ended June 30, 1999 to \$22,554,000 for fiscal year ended June 30, 2003, an increase of 4.5%. Although purchased power and transmission expenses increased during this five year period, they were offset by an increase in excess power sales and additional transmission revenues. Purchased power and transmission costs, net of wholesale sales and transmission revenues, decreased from \$115,542,000 for the fiscal year ended June 30, 1999 to \$111,233,000 for the fiscal year ended June 30, 2003, a decrease of 3.7%. The decrease in net purchased

power and transmission costs are primarily attributable to additional transmission revenues received as a result of becoming a PTO with the ISO, offset by a 6.8% increase in the average number of customers, a 1.1% increase in average consumption per customer, as well as additional costs of becoming a PTO. Purchased power expenses for fiscal years 1998-99 through 2002-03 include the costs for PVNGS, the IPP Generating Station, the Hoover Upgrade Project, DWR, BPA, Deseret, forward market and, to a limited degree, spot market energy purchases and renewable resources. Power costs also include costs of transmission and production at SONGS and costs of production of the Springs Generating Project.

Transfers to the General Fund of the City. Effective December 1, 1977, transfers to the General Fund of the City of surplus funds of the Electric System (after payment of Operating and Maintenance Expenses and debt service) are limited by the City Charter, amendment of which requires voter approval. Such transfers are limited to twelve equal monthly installments during each fiscal year constituting a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor. The transfers to the General Fund of the City for the fiscal year ending June 30, 2003 was \$15,333,000, equal to approximately 9.0% of the prior fiscal year's Gross Operating Revenues. The budgeted transfer to the General Fund of the City for the fiscal year ending June 30, 2004 is \$16,177,000, equal to approximately 9.0% of the prior fiscal year's Gross Operating Revenues. See "THE ELECTRIC SYSTEM—Electric System Strategic Plan—Operating Cost Reductions and Competitive Transition Account/Reserves."

Competitive Transition Account/Reserves. A Competitive Transition Account ("CTA") was established in June 1998 after approval by the Riverside Board of Public Utilities and the City Council. This new account was funded by a transfer of \$23.5 million from a rate stabilization account and \$10 million from an operating cash reserve account. The CTA was an internally restricted asset, and the Riverside Board of Public Utilities and City Council were authorized to approve the usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. Possible uses included early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA at June 30, 2003 was \$29 million.

Effective July 1, 2003, the City Council approved the dissolution of the CTA. The funds from the CTA are to be used for establishing a Regulatory Risk Reserve Account for \$4.0 million, an Energy Risk Management Reserve Account for \$11.0 million and transferring the remaining balance of \$14.0 million to the Operating Risk Reserve Account, all of which are considered internally restricted assets. The combined balances of the three reserve accounts was \$40.9 million at December 31, 2003.

A portion of the electric rate increases approved on June 4, 2002 (see "Electric Rates and Charges" above) is expected to be used to increase the balance in the Operating Risk Reserve Account through the fiscal year ending June 30, 2005.

Investment Policy and Controls. Unexpended revenues from the operation of the Electric System, including amounts held in the Electric Revenue Fund prior to expenditure as described herein, are invested under the direction of the City Treasurer, who is charged to pursue the primary objective of safety, and, thereafter, the objectives of liquidity and yield. The City's investment portfolio is managed to provide the necessary liquidity to fund daily operations. Cash flow is continually reviewed, and the City manages 100% of its own funds.

The management and accounting functions of the City's investment portfolio are separated. The Treasurer renders a monthly report of investment activity to the City Manager and City Council.

The City's portfolio is currently comprised of fixed rate United States Government Agency Bonds and corporate notes which are rated at least AA- by at least one rating agency and money market

funds, including the State of California Local Agency Investment Fund. The current portfolio does not include any derivative type investments.

Significant Accounting Policies. Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Electric System is accounted for as an enterprise fund. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges) or (ii) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Investments are stated at fair value. Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor, materials, interest during construction, allocated indirect charges such as engineering, supervision, construction and transportation equipment, retirement plan contributions and other fringe benefits, and certain administrative expenses. Contributed plant assets are valued at their estimated fair market value on the date contributed.

For accounting policies relating specifically to the Electric System, see the notes to the financial statements in Appendix B.

Summary of Operations. The following table shows the Net Operating Revenues of the Electric System available for debt service and depreciation as calculated in accordance with the flow of funds in the Resolution, and has been prepared by the City based upon audited financial statements for the Electric System for fiscal years 1998-99 through 2002-03 and on unaudited financial information for the six months ended December 31, 2002 and December 31, 2003.

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HISTORICAL SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE
(Dollars in Thousands)

	Fiscal Year Ended June 30,					Six-Months Ended December 31, (unaudited)	
	1999	2000	2001	2002	2003	2002	2003
Operating Revenues:							
Residential	\$ 61,674	\$ 64,315	\$ 65,426	\$ 64,625	\$ 68,649	\$ 37,765	\$ 46,722
Commercial and Industrial.....	97,996	104,338	102,769	101,546	106,973	55,430	61,430
Wholesale Sales ⁽¹⁾	10,911	18,209	89,254 ⁽⁶⁾	47,885	17,806	11,663	3,867
Transmission Revenue ⁽²⁾	0	0	0	273	8,661	143	10,924
Other.....	1,552	1,777	1,971	1,777	2,230	1,161	1,241
Total Operating Revenues Before (Reserve)/Recovery.....	172,133	188,639	259,420	216,106	204,319	106,162	124,184
Reserve for Uncollectible, Net of (Reserve)/Recovery ⁽³⁾⁽⁴⁾	(601)	(604)	(11,546)	1,635	(1,218)	1,658	(332)
Total Operating Revenues, Net of (Reserve)/Recovery.....	\$171,532	\$188,035	\$247,874	\$217,741	\$203,101	107,820	123,852
Interest Income.....	6,200	5,061	8,589	6,670	4,286	2,570	2,549
Capital Contributions.....	1,529	2,016	4,269	2,498	2,254	1,000	764
Non-Operating Revenues.....	1,769	2,127	1,309	1,491	785	374	373
Total Revenues.....	<u>\$181,030</u>	<u>\$197,239</u>	<u>\$262,041</u>	<u>\$228,400</u>	<u>\$210,426</u>	<u>\$111,764</u>	<u>\$127,538</u>
Operating Expenses:							
Nuclear Production	\$ 11,031	\$ 9,597	\$ 9,955	\$ 9,877	\$ 11,518	\$6,108	5,219
Purchased Power.....	93,690	100,476	167,339 ⁽⁷⁾	139,472	100,127	58,660	50,957
Transmission Expenses.....	20,468	19,357	17,160	19,004	21,538	8,439	16,357
Distribution Expenses.....	7,072	6,883	7,083	7,015	7,403	3,321	3,826
Customer Account Expenses	4,563	4,916	4,838	4,846	5,265	2,475	2,783
Customer Service Expenses.....	617	735	1,015	811	781	366	513
Administration & General Expenses.....	5,909	4,629	4,453	4,236	4,032	2,717	3,202
Clearing & Miscellaneous Expenses	3,012	2,978	3,638	4,036	5,073	2,502	2,763
Total Expenses ⁽⁵⁾	<u>\$146,362</u>	<u>\$149,571</u>	<u>\$215,481</u>	<u>\$189,297</u>	<u>\$155,737</u>	<u>\$ 84,588</u>	<u>\$ 85,620</u>
Net Operating Revenues Available for Debt Service And Depreciation.....	<u>34,668</u>	<u>47,668</u>	<u>46,560</u>	<u>39,103</u>	<u>54,689</u>	<u>27,176</u>	<u>41,918</u>
Debt Service Requirements on Prior Bonds..	\$ 17,256	\$ 17,353	\$ 17,280	\$ 17,226	\$ 18,806	\$ 9,813	\$ 11,145
Debt Service Coverage Ratio	2.01x	2.75x	2.69x	2.27x	2.91x	N/A	N/A

(1) Includes ancillary services revenues through December 31, 2001.

(2) Includes additional revenues as a result of becoming a PTO with the ISO effective January 1, 2003.

(3) June 30, 2001 amount includes estimated reserve for uncollectible accounts of \$11.0 million related to financial instability of certain California counterparties.

(4) June 30, 2002 amount includes bad debt recoveries of \$2.8 million related to funds recovered from amounts previously considered uncollectible from Edison for ancillary services.

(5) Does not include contributions to City's General Fund of \$14,411,000, \$14,405,000, \$15,243,000, \$15,324,000 and \$15,333,000 for fiscal years 1998-99 through 2002-03, respectively.

(6) Increase from prior fiscal year was due primarily to an increase in sales of excess energy caused by additional block energy purchases to cover peak demand and to protect the City from the volatile energy market.

(7) Increase from prior fiscal year due primarily to increased power supply costs for short term contracts at market prices that were substantially higher than previously experienced.

Audited Balance Sheets and Related Statements. The following table presents summaries of financial data relating to the Electric System for fiscal years 1998-99 through 2002-03. This data is extracted from the City's Electric Utility Audited Balance Sheets and Related Statements for such fiscal years.

The City's Electric Utility Audited Balance Sheets and Related Statements for the fiscal year 2002-03 were audited by McGladrey & Pullen, LLP, independent accountants (the "Auditor"), in accordance with generally accepted auditing standards, and contain opinions that the financial statements present fairly the financial position of the Electric System. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited balance sheets and related statements. Copies of these reports are available on request from the Department.

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ELECTRIC FUND BALANCE SHEET
(In Thousands)

	Fiscal Year Ended June 30,				
	1999	2000	2001	2002	2003
ASSETS					
Utility plant: ⁽¹⁾					
Production.....	\$126,467	\$126,850	\$127,482	\$128,009	\$174,035
Transmission.....	15,021	15,021	15,032	15,025	15,043
Distribution.....	195,256	201,339	212,340	232,056	241,531
General.....	26,258	24,471	24,549	24,626	25,190
	<u>363,002</u>	<u>367,681</u>	<u>379,403</u>	<u>399,716</u>	<u>455,799</u>
Less accumulated depreciation.....	(153,895)	(164,026)	(175,494)	(187,660)	(200,942)
	<u>209,107</u>	<u>203,655</u>	<u>203,909</u>	<u>212,056</u>	<u>254,857</u>
Construction in progress.....	7,300	12,483	17,589	50,856	16,335
Nuclear fuel, at amortized cost.....	2,486	1,490	2,065	1,397	1,127
Total utility plant.....	<u>218,893</u>	<u>217,628</u>	<u>223,563</u>	<u>264,309</u>	<u>272,319</u>
Restricted assets.....	<u>74,981</u>	<u>74,120</u>	<u>73,133</u>	<u>79,336</u>	<u>73,036</u>
Current assets:					
Cash and investments ⁽²⁾	57,694	40,654	46,801	45,030	47,244
Accounts receivable, net.....	21,736	28,930	27,198	24,790	31,907
Accrued interest receivable.....	893	795	928	602	613
Prepaid expenses.....	3,886	3,916	4,188	4,371	5,278
Nuclear materials inventory.....	974	989	1,024	1,097	1,150
Total current assets.....	<u>85,183</u>	<u>75,284</u>	<u>80,139</u>	<u>75,890</u>	<u>86,192</u>
Other non-current assets:					
Unamortized purchased power.....	0	25,056	25,056	25,056	21,715
Unamortized costs.....	6,643	6,338	6,038	6,301	5,989
Total other non-current assets.....	<u>6,643</u>	<u>31,394</u>	<u>31,094</u>	<u>31,357</u>	<u>27,704</u>
Total assets.....	<u>\$385,700</u>	<u>\$398,426</u>	<u>\$407,929</u>	<u>\$450,892</u>	<u>\$459,251</u>
EQUITY AND LIABILITIES					
Equity:					
Invested in capital assets, net of related debt.....	\$ 30,331	\$ 28,839	\$ 43,315	\$44,614	\$ 49,303
Restricted for debt service.....	18,214	18,378	18,426	23,723	25,786
Unrestricted.....	79,890	91,872	88,347	84,035	89,665
Total equity ^{(1)&(3)}	<u>128,435</u>	<u>139,089</u>	<u>150,088</u>	<u>152,372</u>	<u>164,754</u>
Long-term obligations, less current portion.....	<u>206,106</u>	<u>199,219</u>	<u>191,884</u>	<u>232,684</u>	<u>221,921</u>
Total equity and long-term obligations.....	<u>334,541</u>	<u>338,308</u>	<u>341,972</u>	<u>385,056</u>	<u>386,675</u>
Non-current liabilities:					
Nuclear decommissioning liability.....	<u>25,237</u>	<u>28,300</u>	<u>31,527</u>	<u>34,855</u>	<u>38,144</u>
Current liabilities payable from Restricted assets:					
Accrued interest payable.....	2,685	2,611	2,531	2,906	2,808
Deferred revenue-public benefit programs.....	4,765	8,017	8,733	4,291	3,630
Current portion of long-term obligations.....	6,610	6,930	7,385	7,840	10,780
Total current liabilities payable from restricted assets.....	<u>14,060</u>	<u>17,558</u>	<u>18,649</u>	<u>15,037</u>	<u>17,218</u>
Current liabilities:					
Accounts payable.....	5,145	7,378	9,042	8,136	9,736
Other liabilities.....	6,717	6,882	6,739	7,808	7,478
Total current liabilities.....	<u>11,862</u>	<u>14,260</u>	<u>15,781</u>	<u>15,944</u>	<u>17,214</u>
Total equity and liabilities.....	<u>\$385,700</u>	<u>\$398,426</u>	<u>\$407,929</u>	<u>\$450,892</u>	<u>\$459,251</u>

⁽¹⁾ Effective July 1, 1999, the City implemented a change in Accounting Policy with regard to the capitalization of fixed assets. The effect of this change was to expense all assets less than \$5,000, and only capitalize assets greater than \$5,000. The change affected fixed assets, accumulated depreciation and depreciation expense, and as a result, beginning equity was decreased by \$932,000. No change was made to fiscal year ended June 30, 1999, as the effect would be immaterial.

⁽²⁾ See discussion below under "Electric System Strategic Plan—Competitive Transition Account/Reserves."

⁽³⁾ Effective July 1, 1999, the City adopted GASB 33, which required that cash and non-cash capital contributions be reflected in the Operating Statement and included in Unreserved Retained Earnings. Also effective July 1, 1999, the City adopted GASB 34, which required changes to certain categories and classifications of the Balance Sheet.

Outstanding Electric Revenue Bonds and Other Obligations

Electric Revenue Bonds Outstanding. As indicated in the following table, upon the issuance of the 2004 Bonds, the City will have outstanding electric revenue Bonds in the aggregate principal amount of \$325,665,000 issued under the Resolution. No Parity Debt will be outstanding upon the issuance of the 2004 Bonds.

ELECTRIC REVENUE BONDS OUTSTANDING

<u>Name of Issue</u>	<u>Principal Amount</u>
Electric Refunding Revenue Bonds, Issue of 1998	\$94,080,000
Electric Revenue Bonds, Issue of 2001	47,215,000
Electric Refunding Revenue Bonds, Issue of 2003	74,370,000
Electric Revenue Bonds, Issue of 2004	110,000,000
Total	<u>\$325,665,000</u>

Debt Service Requirements. The following table indicates the scheduled debt service on the 2004 Bonds, the 2003 Bonds, the 2001 Bonds and the 1998 Bonds.

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Debt Service Requirements

Fiscal Year Ended June 30,	Parity Bond Principal ⁽¹⁾	Parity Bond Interest ⁽¹⁾	2004 Bonds Principal	2004 Bonds Interest ⁽²⁾	Total Debt Service ⁽³⁾
2005	\$ 14,555,000	\$ 9,565,930	--	\$ 4,047,565	\$ 28,168,495
2006	15,015,000	9,070,695	--	4,282,246	28,367,941
2007	15,600,000	8,497,656	\$2,615,000	4,229,946	30,942,602
2008	16,210,000	7,859,693	2,725,000	4,123,146	30,917,839
2009	16,940,000	7,139,457	2,855,000	3,993,702	30,928,159
2010	17,715,000	6,357,189	3,010,000	3,895,892	30,978,081
2011	18,550,000	5,511,228	3,170,000	3,677,521	30,908,749
2012	17,180,000	4,673,506	3,280,000	3,512,309	28,645,815
2013	17,960,000	3,815,950	3,505,000	3,342,684	28,623,634
2014	16,835,000	2,922,803	3,695,000	3,153,446	26,606,249
2015	10,510,000	2,221,000	3,895,000	2,953,382	19,579,382
2016	11,080,000	1,670,263	4,010,000	2,822,220	19,672,483
2017	7,535,000	1,193,313	4,200,000	2,620,003	15,548,315
2018	2,930,000	925,750	4,425,000	2,465,893	10,746,643
2019	3,080,000	775,500	4,575,000	2,305,820	10,736,320
2020	3,235,000	617,625	4,775,000	2,139,169	10,766,794
2021	3,400,000	451,750	4,950,000	2,003,510	10,805,260
2022	3,575,000	277,375	5,150,000	1,783,275	10,785,650
2023	3,760,000	94,000	5,300,000	1,597,585	10,751,585
2024	--	--	5,550,000	1,404,001	6,954,001
2025	--	--	5,775,000	1,202,831	6,977,831
2026	--	--	6,000,000	993,203	6,993,203
2027	--	--	6,250,000	788,759	7,038,759
2028	--	--	6,475,000	544,257	7,019,257
2029	--	--	6,725,000	309,835	7,034,835
2030	--	--	7,000,000	65,333	7,065,333
Totals ⁽²⁾	<u>\$215,665,000</u>	<u>\$ 73,640,682</u>	<u>\$110,000,000</u>	<u>\$ 64,257,533</u>	<u>\$463,563,216</u>

(1) Includes 2003 Bonds, 2001 Bonds and 1998 Bonds.

(2) Assumes annual interest rate of 3.50% on the Series 2004B Bonds.

(3) Total does not add due to rounding.

Joint Powers Agency Obligations. As previously discussed, the City participates in or contracts with IPA and SCPPA. Obligations of the City under the agreements with IPA and SCPPA constitute Operating and Maintenance Expenses of the City payable prior to any of the payments required to be made on the Bonds and any Parity Debt. Agreements between the City and IPA and the City and SCPPA are on a “take-or-pay” basis, which requires payments to be made whether or not applicable projects are completed or operable, or whether output from such projects is suspended, interrupted or terminated. All of these agreements contain “step up” provisions obligating the City to pay a share of the obligations of a defaulting participant. The City’s participation and share of principal obligation (without giving effect to any “step up” provisions) for each of the joint powers agency projects in which it participates are shown in the following table.

OUTSTANDING DEBT OF JOINT POWERS AGENCIES
As of December 31, 2003
(Dollars in Thousands)

	Principal Amount of Outstanding Debt	City Participation ⁽¹⁾	City Share of Outstanding Debt ⁽²⁾	JPA Debt Service Related Costs Paid by the City in 2002-03
Intermountain Power Agency				
Intermountain Power Project ⁽³⁾	\$3,696,926	7.617%	\$281,595	\$23,630
Southern California Public Power Authority				
Palo Verde Nuclear Generating Station	712,265 ⁽⁴⁾	5.400	38,462	6,304
Southern Transmission System	968,355	10.200	98,772	6,297
Hoover Dam Upgrading	22,590	31.900	7,206	714
Mead-Phoenix Transmission	71,915	4.000	2,877	132
Mead-Adelanto Transmission	<u>229,175</u>	<u>13.500</u>	<u>30,939</u>	<u>1,399</u>
Total	\$5,701,226		\$459,851	\$38,476

(1) Participation obligation is subject to increase upon default of another project participant.

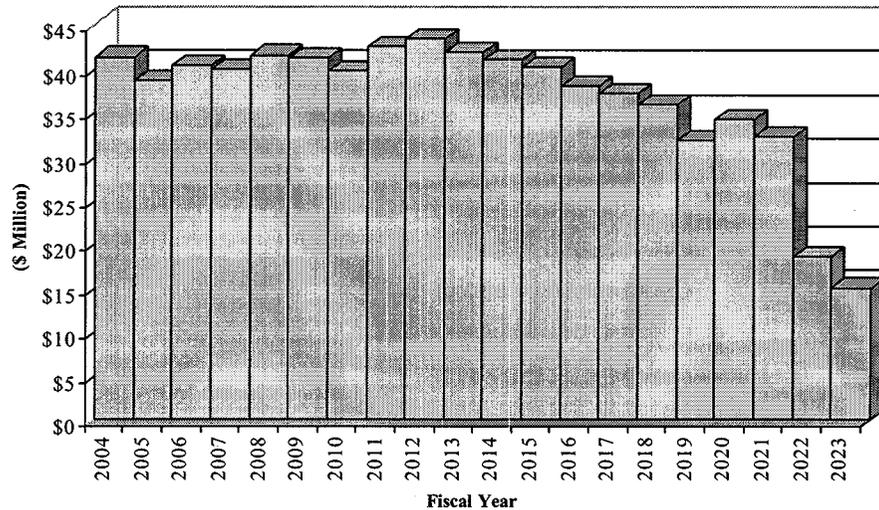
(2) Excludes interest on the debt.

(3) Includes subordinate notes and full accreted value at maturity for all capital appreciation bonds. Inclusive of the IPP Excess Power Sales Agreement, after reduction for portion withdrawn by Utah members in accordance with such Agreement.

(4) All but approximately \$148 million of such bonds are scheduled to be paid by July 1, 2004.

For the fiscal year ended June 30, 2003, the City’s obligations for debt service on its joint powers agency obligations aggregated approximately \$38.5 million. Debt service on joint powers agency obligations is expected to increase to a high of approximately \$43.3 million in fiscal year 2012, but is expected to decline to approximately \$15.0 million in fiscal year 2023. This projection assumes no future debt issuances, and that the interest rate on unhedged (not otherwise fixed through interest rate swap agreements) variable rate joint powers agency debt obligations will be 4.5%. As of January 1, 2004, approximately 18% of the joint powers agency obligation debt service was unhedged variable rate debt. Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at a maximum rate substantially in excess of the assumed rates stated above. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity agreements may result in the acceleration of scheduled payment of the principal of such variable rate joint powers agency obligations. In addition, swap agreements entered into by the joint powers agencies are subject to early termination under certain circumstances, in which event substantial payments could be required to be made to the applicable swap provider. The chart below summarizes the City’s aggregate debt service requirement in connection with its outstanding joint powers agency obligations (without giving effect to any step-up provisions).

**City of Riverside's Share of
Aggregate Debt Service of Joint Powers Agencies**



Electric System Strategic Plan

Strategic Plan. In October 2001, to adapt to the changing conditions in the electric industry in California, a comprehensive Strategic Plan was adopted. While open access appears to be over for the near future, the Board of Public Utilities and City Council remain committed to “act like we are in open competition” and strongly believe in the following mission statement: “Riverside Public Utilities is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.”

As part of an ongoing strategic planning process, the following goals were revised in October 2002 to fulfill Riverside Public Utilities’ mission statement:

- Improve and protect the current excellent financial health of the utility
- Build a high quality infrastructure to serve new and existing customers
- Maintain the obligation to serve and improve community relations
- Reduce dependence on a single point of energy delivery (Vista Substation)
- Increase the share of renewable generation in the portfolio
- Safeguard the supply and quality of Riverside water resources for the next 100 years
- Meet essential water and electric services during an emergency or disaster

Short-term actions to achieve these goals were completed as planned in 2003. Some key success indicators include (i) established rate increases that did not exceed 5% per year over the next three years to, among other things, improve financial liquidity and Riverside Electric System reliability, (ii) established cash reserve levels of a minimum 90 days operating expenses, (iii) implemented a cable replacement program, (iv) obtained 25 MW of renewable resources, (v) constructed the Springs Generating Project to provide for extra peaking capacity, and (vi) updated the disaster management plan.

In October 2003, a complete review of the three-year strategic plan was completed, with some changes to the three-year goals (2004-2007). Revised goals are as follows:

- Improve and protect the current excellent financial health of the utility
- Build and maintain a safe and reliable infrastructure
- Promote the efficient use of water and electricity
- Enhance community relations and customer satisfaction
- Expand the customer base through economic development
- Attract, develop, and retain quality employees

Short-term actions to achieve these goals include (i) implementation of a work management system to improve efficiencies and reduce costs, (ii) continue increase of established cash reserve levels, (iii) review rate structures to encourage efficiencies, (iv) completion of the downtown power upgrade project to improve system reliability, (v) construct the Riverside Energy Resource Center Project to provide for extra peaking capacity, and (vi) expand the business visitation program to small and medium size customers.

Electric Rates. Historically, electric rates for the City's electric customers have been lower than rates for Edison customers. The City cannot predict future rate actions with respect to Edison or other utilities. Based on current rates in place as of February 1, 2004, the rate differential with Edison's residential and small commercial rates varies from 5% to 18%. On June 4, 2002, the City Council approved increases to electric rates and certain fees. Rates for residential customers were increased by 4% and 3.25% on November 1, 2002 and November 1, 2003, respectively, and rates for large commercial and industrial customers were increased by 3% and 3%, respectively. These were the first increases in basic retail rates since July 28, 1993. An increase for 2004 has also been approved, as well as changes to certain fees and charges (see above under "Electric Rates and Charges").

Operating Cost Reductions and Competitive Transition Account/Reserves. The City has actively worked to reduce operating costs since deregulation began in 1996. Over the last seven years, the City has strived to reduce operating and maintenance costs (excluding state mandated public benefit programs), including a 9% reduction in staff, despite an 11% increase in the number of customers and an 8% increase in retail revenues. In addition, the City reduced the General Fund Transfer level to 9% from the all-time high of 10.5% in 1996. It is the City Council's policy to review this transfer annually, but it is currently contemplated that no additional reductions or increases will be implemented.

The City also plans to continue to build cash reserves, and a portion of the rate increases approved on June 4, 2002 is expected to help fulfill this goal. Excluding operating cash, cash reserves in the CTA increased from \$27.9 million at June 30, 2000 to \$40.9 million as of December 31, 2003. Effective July 1, 2003, the City Council approved the dissolution of the CTA. (See discussion above under "Competitive Transition Account/Reserves.")

Customer Base. Customers and community relations continue to be an important focus for the City. The marketing function created several years ago continues to enhance customer relations. Because the decision to offer open access to the City's Electric System customers has been postponed, the emphasis on long-term customer contracts has been reduced, with a new emphasis on assisting customers in reducing their electric bills through utilizing public benefit programs. In addition, economic development is now being emphasized through a strategic partnership with the City's Development Department.

Power Resource Portfolio Management. Efforts continue to reduce long-term generation costs, with an emphasis on risk mitigation and providing stable and predictable rates for customers through the procurement of new energy supply sources at reasonable prices and implementation of a new Long-Range Power Resource Plan described below.

The City has updated its Long-Range Power Resource Plan and Load Forecast to provide for the anticipated growth in demand. The City has provided for firm resources to cover expected load through 2004 and is implementing the long-range plan to cover expected load in the 2005 to 2013 timeframe. The plan is divided into phases, with the first phase calling for the installation of 40 MW of simple cycle combustion turbines to provide additional peaking capacity and system security. This phase has been completed with the addition of the Springs Generating Project, which began commercial operation in October 2002. The second phase is currently underway with efforts made to acquire additional capacity and energy for 2005 and beyond.

DEVELOPMENTS IN THE ENERGY MARKETS

Industry Restructuring and the Energy Crisis

Background. Following FERC actions in the 1990s to allow suppliers of wholesale electric generation services to make sales of capacity and energy at negotiated “market-based” rates and the enactment by FERC (in 1996) of Order No. 888 requiring the provision of open access transmission services on a non-discriminatory basis by jurisdictional utilities (see “OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—Federal Regulation of Transmission Access” herein), the State of California attempted to establish a more competitive electric energy market. By September 1996, State Legislative Assembly Bill 1890 (“AB 1890”) had become effective, which established a framework for the deregulation of the California electric energy market. AB 1890 mandated the organization of an Independent System Operator, or “ISO,” to regulate non-discriminatory access to transmission facilities, consistent with FERC-approved tariffs, and an independent power exchange, or “PX,” to provide a spot market for the purchase of output of the generating assets of the three major IOUs in California, PG&E, San Diego Gas & Electric Co. (“SDG&E”) and Edison and for the sale of electricity to meet the IOU’s power requirements. Pursuant to AB 1890 and decisions of the CPUC, the IOUs sold much of their generating resources and were required to satisfy the load requirements of their customers not met with their retained generation through spot market purchases from the PX rather than long-term power purchase contracts. Although AB 1890 applied primarily to the California IOUs, municipal utilities were encouraged to participate in the competitive framework by gradually providing open access to competitive energy providers.

In early 2000, wholesale electricity prices in California began to rise, swiftly and dramatically. Retail electricity rates permitted to be charged by the three major California IOUs, at the time were frozen pursuant to provisions of AB 1890. Although SDG&E satisfied the statutory condition which permitted it to “unfreeze” its rates, PG&E and Edison continued to be subject to the rate freeze and their financial condition deteriorated rapidly. An emergency, 30% rate increase by the CPUC in March 2001 proved insufficient to stem the losses. On April 6, 2001, PG&E filed for bankruptcy protection. PG&E remains in bankruptcy today. In order to avert an Edison bankruptcy, the State, in October 2001, announced a settlement with Edison allowing Edison to recover from ratepayers a substantial portion of its accumulated debts. The settlement between Edison and the CPUC was approved by the district court over the objections of The Utility Reform Network (“TURN”), a nonprofit consumer organization. TURN appealed the judgment. The Ninth Circuit Court of Appeals affirmed the decision of the district court as to certain questions arising under federal law, but certified to the California Supreme Court certain questions relating to the validity of the settlement agreement under California law. On August 21, 2003, the California Supreme Court upheld the settlement agreement.

Also in 2000, the creditworthiness of the ISO and the PX, which was directly tied to creditworthiness of the IOUs deteriorated. On December 15, 2000, the PX had functionally ceased operation and filed for bankruptcy protection shortly thereafter, and the ISO was effectively frozen out of the energy market.

State Intervention. In response to the chaotic energy situation and the reluctance of energy providers to engage in transactions with the State's two largest IOUs, the Governor of the State of California declared a state of emergency and ordered the CDWR to begin buying power for the retail customers of the IOUs. Shortly thereafter, the State formally authorized CDWR's power purchase program by enacting Assembly Bill 1X ("AB 1X"). AB 1X authorized CDWR to enter into power supply contracts in order to supply the shortfall (the "net short") between each IOU's power needs and its own retained generation. AB 1X also required the IOUs to deliver CDWR's energy to the IOU customers, and authorized CDWR to collect a charge from the IOU customers to allow CDWR to recover its costs, including repayment of over \$11 billion of revenue bonds issued by CDWR in October and November 2002.

DWR's contracting power expired on December 31, 2002, although DWR continues to supply power to the IOUs under contracts entered into prior to this date. On January 1, 2003 the IOUs, under the auspices of the CPUC, resumed responsibility for the provision of the residual net short and the administration of DWR contracts although for the foreseeable future DWR is expected to remain the named contractual party to the contracts.

AB 1X also required the CPUC to suspend the right of retail customers of the IOUs to purchase electricity from suppliers other than DWR and the IOUs (*i.e.* direct access) until DWR is no longer a supplier of electricity. In March 2002, the CPUC adopted a decision suspending, as of September 20, 2001, any new direct access. In a subsequent decision, the CPUC established a surcharge mechanism under which direct access customers were made responsible for paying a share of the costs incurred by DWR and by the IOUs during the energy crisis. The decision adopted an initial interim cap of 2.7 cents/kWh, in response to concerns that the surcharges might cause direct access to become uneconomic. Bundled (IOU) customers will finance any undercollection resulting from the cap, and they will be repaid with interest over a reasonable period. The cap is subject to adjustment as determined in further proceedings ordered in the decision. There are currently various bills pending in the California Legislature that would impact direct access transactions. See "Proposed State Legislation" below. No prediction can be made which, if any, of such bills will become law.

FERC Price Mitigation and Other FERC Actions. Beginning in late 2000, FERC took several steps to address the spiraling cost of energy in the California markets, including the implementation of cost-based price mitigation in the spot electricity markets. In July 2002, FERC replaced the previous formula for calculating the price cap with a hard cap of \$91.87 per MWh, effective through September 30, 2002. FERC subsequently issued an order establishing a hard price cap of \$250 per MWh effective October 1, 2002 which remains in place. FERC indicated it established the price cap at this level to promote further development of new generating resources in California.

The CPUC and the California Electricity Oversight Board each brought action (which actions were consolidated) at FERC against all sellers of energy under long-term contracts to CDWR. These actions sought rescission of, or in the alternative, a reduction in the rates charged under the long-term contracts on the basis that such rates are unjust and unreasonable. On June 25, 2003, FERC upheld the validity of the long-term power contracts. A number of the long-term power contracts have been renegotiated.

State and Federal Investigations. FERC has instituted various proceedings to investigate the allegations that the rates at which power was sold to the ISO, the PX, and CDWR during the California energy crisis in 2000 and 2001 were excessive, and to make a determination as to whether refunds are appropriate. FERC conducted a proceeding to determine whether refunds should be ordered for certain energy and ancillary services sales to entities in California for the period October 2, 2000 to June 20, 2001. The City is an active participant in certain of those proceedings, and has provided

documents and responses to data requests directed to the City in those proceedings. On March 26, 2003, FERC issued an order regarding refunds by various energy market participants and the methodology for determining the price of natural gas for power sales by such energy market participants. It has not been determined that FERC in these proceedings may legally require the City to refund or disgorge any amounts in connection with power sales made by the City. In any event, based upon the City's preliminary analysis, the City believes that the March 26, 2003 Order will have no material adverse impact on the financial condition or operations of the City's Electric System.

FERC also conducted a proceeding to determine whether refunds should be ordered for power sales in the Pacific Northwest for the period December 25, 2000 to June 20, 2001. On February 13, 2002, FERC initiated a fact-finding proceeding regarding the possibility of market manipulation or exercise of market power by Enron and affiliates both in the electricity and natural gas industries during 2000 and 2001 (one of several investigations by FERC and the State regarding California market issues). On August 13, 2002, FERC issued a preliminary staff report on its Enron investigation. FERC also instituted specific proceedings regarding a number of market participants. On March 26, 2003, FERC staff issued a final report, indicating that there would be further action in the future against specific market participants. On June 25, 2003 FERC issued its "Order to Show Cause Concerning Gaming and/or Anomalous Market Behavior" ("OSC"). The OSC required a number of named identified entities, including the City, to show cause why FERC should not find the named identified entities participated in activities that constitute gaming and/or anomalous market behavior ("Gaming Practices") in violation of the ISO and California Power Exchange Tariffs. After further review of the information and documents submitted to FERC, on August 28, 2003, FERC Staff filed a motion to dismiss the City, and others, from FERC Gaming Practices docket. As of March 3, 2004, FERC had reached settlement with, or dismissed the proceedings involving, each of the entities subject to the show cause orders, other than Enron. Certain of the proposed settlements are pending approval by FERC. The settlements are also subject to FERC and civil court procedures for review and appeal.

FERC Staff is also conducting an inquiry into potential physical withholding by generators selling into the California market. The City has not been requested to provide any information to FERC in connection with this inquiry. The inquiries could lead to further proceedings.

Adverse rulings in certain of these cases may affect the City's power costs and revenues and result in judgments and/or refunds payable by the City to the State or other entities. The City is unable to predict the outcome of such litigation, investigations and proceedings.

Proposed State Legislation

Various bills have been considered by the State Legislature which would dismantle much of the deregulation framework established under AB 1890 and subsequent CPUC decisions. (See "Industry Restructuring and the Energy Crisis—Background" above for a discussion of that deregulation framework.) Among other provisions, one or more of these bills would abolish the now-defunct PX, which was originally intended to be the principal spot market for electrical energy in the State; require the IOUs to dedicate their retained generating assets to serve their customers; establish standards for the recovery of costs and return on investment for the IOUs; require the IOUs to invest in new generating assets to serve their customers, or to contract for such investment with the California Consumer Power and Conservation Financing Authority; eliminate so-called "direct access" transactions and load aggregation on a prospective basis; and require the Legislature to approve the entry of the ISO into a multi-state or regional transmission organization. At least one such bill would repeal certain provisions of AB 1890 relating to publicly owned utilities (such as the City's Electric System) which encouraged municipal utilities to commit control of certain transmission assets to the ISO, and required direct access in the service territories of public owned utilities. As the City already controls its own distribution assets

and has never authorized direct access within the Electric System's service area, these bills would have no impact upon the City's Electric System operations.

No prediction can be made by the City as to whether any of these bills or any similar bills proposed in the future will become law or, if they become law, what their final form or effect would be.

Impact of Developments on the City; Possible Exposure from California Energy Crisis

The effect of these developments in the California energy markets on the City cannot be fully ascertained at this time. During the energy crisis in California during 2000 and 2001, many utilities experienced adverse fiscal consequences and service level impacts to their customers. As a vertically integrated utility that has maintained the obligation to serve its customers, the City is meeting all of its current load requirements primarily with its own resources and did not raise its rates as a direct result of the crisis. While the City experienced increased power supply costs due to increased prices in the short-term market, these increases were offset by the increase in wholesale sales discussed previously. Most wholesale sales from July to December 2000 were to the PX and the ISO. In mid-January 2001, the PX discontinued operations and filed for bankruptcy protection. Also, wholesale sales to the ISO largely ceased due to the City's creditworthiness concerns relating to others participating in the ISO's markets, except for sales to the ISO in emergency situations. As a result of the PX's January 2001 bankruptcy and the occurrence of credit events affecting others in California's energy market, certain amounts remain owing to the City by the PX and ISO. Unpaid amounts owed to the City by the PX and the ISO amounted to \$1.4 million as of October 1, 2003, and it is anticipated to ultimately be paid by Pacific Gas & Electric Company ("PG&E"). Due to current circumstances surrounding the financial condition of the ISO, PX, and PG&E, no assurances can be given that the City will recover all or any portion of these amounts.

The amounts due from the ISO and PX have been fully reserved as potentially uncollectible amounts in fiscal year 2001, as shown in the table set forth above under the caption "Summary of Operations and Debt Service Coverage."

Additionally, the investigations of the wholesale energy market in California in the years 2000 and 2001 have included the City due to the City's participation in the wholesale market during that period. It is unknown whether such investigations will result in refunds either payable by or to the City for prices paid or received by the City during that period that are deemed excessive. In either event, the amounts are not expected to be material.

Volatility in energy prices in California may return due to a variety of factors which affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, insufficient generation resources, fuel costs and availability, weather, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the City's revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Electric System. As described under "THE ELECTRIC SYSTEM—Competitive Transition Account/Reserves" above, the City has taken action to increase its reserves in order to mitigate such volatility.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Federal Regulation of Transmission Access

In April 1996, FERC issued its Order No. 888 to implement the competitive open access to transmission lines authorized by the Energy Policy Act. Order No. 888 requires the provision of open access transmission services on a nondiscriminatory basis by all “jurisdictional utilities” (which, by definition, does not include municipal entities like the City) by requiring all such utilities to file tariffs that offer other entities seeking to effect wholesale power transactions the same transmission services they provide themselves, under comparable terms and conditions. Order No. 888 also requires “nonjurisdictional utilities” (which, by definition, does include the City) that purchases transmission services from a jurisdictional utility under an open access tariff and that owns or controls transmission facilities to, in turn, provide open access service to the jurisdictional utility under terms that are comparable to the service that the nonjurisdictional utility provides itself. This is referred to as the reciprocity requirement.

FERC is encouraging the voluntary formation of regional transmission organizations (“RTOs”) independent from owners of generation and other market participants that will provide transmission access on a non-discriminatory basis to buyers and sellers of power. FERC issued a final rule on December 20, 1999 (*i.e.* Order 2000). Under the rule, IOUs were required to file with FERC a proposal for an RTO, or, alternatively, a description of efforts to participate in an RTO, any existing obstacles to RTO participation, and any plans to work toward RTO participation. California entities did not submit an RTO proposal to FERC until June 1, 2001. On July 31, 2002, FERC issued a notice of proposed rulemaking (“NOPR”). FERC proposes to modify the open access transmission tariff established under FERC Order No. 888 and to provide a national standard for the exchange of electricity and transmission services. FERC also proposes active monitoring and mitigation to prevent market abuses, a central spot-power market that complements a decentralized contract-based market for long-term power supplies, and price information and market transparency mechanisms. An independent entity would: administer spot markets for wholesale power, ancillary services and transmission congestion rights; establish a real-time “balancing” market to maintain reliable operations of the power grid; and create a separate “day-ahead” spot market. There would be a \$1,000 per megawatt-hour cap placed upon these markets to mitigate price volatility.

There are proceedings currently pending before FERC that would result in a wholesale overhaul of the California market design. On April 28, 2003, FERC issued a “White Paper [on] Wholesale Market Power Platform” in furtherance of the standard market design proceeding and the July 31, 2002 NOPR. The White Paper indicates that FERC’s final rule is expected later this year (though federal legislation has been introduced that would delay implementation of any FERC standard market design). While the City is not subject directly to the jurisdiction of FERC, these FERC proceedings have potential impacts on the availability and pricing of transmission services for every electric utility doing business in California. The City is unable to predict the outcome of these regulatory proceedings or, what impact, if any, they would ultimately have on the City.

Proposed Federal Deregulation, Energy and Tax Legislation

Many bills have been introduced in the United States House of Representatives and the United States Senate to deregulate the electric utility industry on the federal or state level. Some of the bills provide for open competition in the furnishing of electricity to all retail customers (*i.e.* retail wheeling). Other bills authorize limited FERC jurisdiction over interstate transmission assets of municipal utilities to order the municipal utilities to provide transmission services on rates and terms comparable to those the entities charge and provide for themselves. Another bill would prohibit FERC from issuing any final

order in the proposed rulemaking on standard market design before July 1, 2005. In addition, various bills have been introduced which would impact the issuance of tax-exempt bonds for transmission and generation facilities. No prediction can be made by the City as to whether any of these bills or any similar federal bills proposed in the future will become law or, if they become law, what their final form or effect upon the City would be.

The Internal Revenue Service has issued new rules that are designed to preserve the tax-exempt status of bonds sold on or after November 22, 2002, issued to finance transmission facilities where control is turned over to an Independent System Operator or Regional Transmission Organization, subject to certain conditions.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the proposed repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of changes in the economy, (q) effects of the filing by Enron for bankruptcy protection under Chapter 11 of the federal Bankruptcy Code and (r) effects of possible manipulation of electric markets. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City cannot predict what effects such factors will have on the business operations and financial condition of the City, but the effects could be significant. The foregoing is a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2004 Bonds should obtain and review such information.

RISK FACTORS

The purchase of the 2004 Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

2004 Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of any 2004 Bonds or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2004 Bonds or their interest. No owner of any 2004 Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2004 Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2004 Bonds and the interest thereon.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2004 Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the 2004 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Electric System serves an essential public purpose.

Electric System Expenses and Collections

There can be no assurance that the City's expenses for the Electric System will remain at the levels described in this Official Statement. Increases in fuel and energy costs, new environmental regulations or other expenses could reduce the City's Net Operating Revenues and could require substantial increases in rates or charges. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Although the City has covenanted to prescribe, revise and collect rates and charges for the Electric System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2004 Bonds.

Rate Regulation

The authority of the City to impose and collect rates and charges for power service is not currently subject to the direct regulatory jurisdiction of the CPUC or FERC, and presently no other regulatory authority directly limits or restricts such rates and charges. See "THE ELECTRIC SYSTEM—Electric Rates and Charges." It is possible that future legislative or regulatory changes could subject the rates or service areas of the City to the direct jurisdiction of the CPUC or FERC or to other limitations or requirements.

IOU Bankruptcy

The City has entered into, and in the future may enter into, various power purchase, transmission service and other arrangements with the IOUs or with other entities that have related arrangements with the IOUs. See “THE ELECTRIC SYSTEM—Power Supply” and “—Transmission Facilities” above for a discussion of existing contracts and other arrangements. In the event of bankruptcy of an IOU with which the City has, or is a beneficiary of, such contractual arrangements, in the bankruptcy proceedings the IOU debtor or its bankruptcy trustee must determine prior to the confirmation of its plan for reorganization, or within a shorter time period determined by the court, whether to assume or reject any of its executory contracts. The City may be subjected to payment delays pending this determination. In the event of assumption, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of an executory contract by the debtor would give rise to an unsecured claim of the other party or parties to the contract for contract rejection damages. In the event of rejection by the debtor in the bankruptcy proceedings of any of the contracts to which the City is a party or beneficiary, the City may be required to replace the services or power supplied under these arrangements at an increased cost, which could result in higher electric rates being charged by the City. The City is unable to determine the ultimate impact on the Electric System if such an IOU declares, or is forced into, bankruptcy.

Casualty Risk

Any natural disaster or other physical calamity, including earthquake, may have the effect of reducing Net Operating Revenues through damage to the Electric System and/or adversely affecting the economy of the surrounding area. The Resolution requires the City to maintain insurance or self-insurance, but only if and to the extent available from responsible insurers at reasonable rates. In the event of material damage to Electric System facilities, there can be no assurance that insurance proceeds will be adequate to repair or replace such facilities. See “THE ELECTRIC SYSTEM—Insurance” and “—Seismic Issues.”

Proposition 218

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters of the State on November 5, 1996. Proposition 218 added Articles XIII C and XIII D to the State Constitution. Article XIII D creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and “property-related” fees and charges. Article XIII D explicitly exempts fees for the provision of electric service from the provisions of such article. Article XIII C expressly extends the people’s initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. The terms “fees and charges” are not defined in Article XIII C, although the California Court of Appeal recently held in Bighorn-Desert View Water Agency v. Beringson, 114 Cal. App. 4th 1213 (2004), that the initiative power described in Article XIII C applies only to local taxes, assessments, fees and charges governed by Article XIII D. Notwithstanding, in the case of Bock v. City Council of Lompoc, 109 Cal.App.3d 52 (1980), the California Court of Appeal determined that an electric rate ordinance was not subject to the same constitutional restrictions that are applied to the use of the initiative process for tax measures so as to render it an improper subject for the initiative process. However, the City believes that even if the electric rates of the City are subject to the initiative power, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2004 Bonds by virtue of the “impairments clause” of the United States and California Constitutions.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

Future Initiatives

Articles XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting Net Operating Revenues or the City's ability to increase its rates for electric service.

Loss of Tax Exemption

As discussed under the caption "TAX EXEMPTION" herein, interest with respect to the 2004 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2004 Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the Resolution. Should such an event of taxability occur, the 2004 Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

TAX EXEMPTION

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2004 Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2004 Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2004 Bonds. The City has covenanted to maintain the exclusion of the interest on the 2004 Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the 2004 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the 2004 Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenant, the 2004 Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the 2004 Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the 2004 Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

To the extent that a purchaser of a 2004 Bond acquires that 2004 Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the 2004 Bonds (determined, in the case of a callable 2004 Bond, under the assumption described below), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic

accrual, basis; the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a 2004 Bond that is callable, the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the 2004 Bond will be called on the redemption date that would minimize the purchaser's yield on the 2004 Bond (or that the 2004 Bond will not be called prior to maturity if that would minimize the purchaser's yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a 2004 Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2004 Bond to the owner.

Any person considering purchasing a 2004 Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the 2004 Bond.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2004 Bonds may affect the tax status of interest on the 2004 Bonds or the tax consequences of the ownership of the 2004 Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2004 Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2004 Bonds from the gross income of the owners thereof for federal income tax purposes. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2004 Bonds, or the interest thereon, if they any action is taken with respect to the 2004 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Although Bond Counsel is of the opinion that interest on the 2004 Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2004 Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2004 Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2004 Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the 2004 Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2004 Bonds, (iii) interest on the 2004 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2004 Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2004 Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2004 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2004 Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2004 Bonds, the City may have different or conflicting interests from the owners. Further, the disclosure of the initiation of an audit of the 2004 Bonds may adversely affect the market price and liquidity of the 2004 Bonds, regardless of the final disposition of the audit.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2004 Bonds are subject to the unqualified approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Said opinion in substantially the form attached as Appendix G will be delivered at the time of delivery of the 2004 Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by its counsel, Sidley Austin Brown & Wood LLP, Los Angeles, California. The payment of the fees and expenses of Bond Counsel is contingent upon the closing of the sale of the 2004 Bonds.

LITIGATION

At the time of delivery and payment for the 2004 Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, questioning (i) the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2004 Bonds or the power and authority of the City to issue the 2004 Bonds, or (ii) the authority of the City to fix, charge and collect rates for the sale of power and energy by the City as provided in the Resolution.

FINANCIAL STATEMENTS

The financial statements of the City of Riverside Electric Utility as of and for the year ended June 30, 2003 included in Appendix B to this Official Statement have been audited by McGladrey & Pullen, LLP, independent accountants (the "Auditor") as stated in its report appearing in Appendix B. The financial statements of the City of Riverside Electric Utility for the year ended June 30, 2002, also included in Appendix B, were audited by other auditors whose report, dated September 30, 2002, expressed an unqualified opinion on those statements. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in Appendix B of its report on such 2002-03 financial statements. The Auditor's review in connection with such 2002-03 audited financial statements included in Appendix B included events only as of September 30, 2003 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

RATINGS

Fitch and Standard & Poor's are expected to assign ratings of "AAA" and "AAA," respectively, to the 2004 Bonds, with the understanding that upon the issuance of the 2004 Bonds the Policy will be issued by the Insurer. See "BOND INSURANCE." The underlying ratings on the 2004 Bonds, without regard to the Policy, are "A+" and "A+" by Fitch and Standard & Poor's, respectively. Such ratings

reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained only from the agencies at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2004 Bonds.

UNDERWRITING

Citigroup Global Markets Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the 2004A Bonds from the City at a price of \$29,327,976.55 (which reflects a \$78,362.75 Underwriter's discount and a \$1,906,339.30 original issue premium) and will agree, subject to certain conditions, to purchase the 2004B Bonds from the City at a price of \$82,155,463.00 (which reflects a \$344,537.00 Underwriter's discount) and to make a bona fide public offering of the 2004 Bonds at not in excess of the initial public offering prices. The Underwriter will be obligated to purchase all of the 2004 Bonds if any 2004 Bonds are purchased.

The Underwriter may offer and sell the 2004 Bonds to certain dealers and others (including Underwriter and other dealers depositing such 2004 Bonds into investment trusts) at prices lower than the respective initial public offering prices, and the public offering prices may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the 2004 Bonds to provide certain financial information and operating data relating to the Electric System (the "Annual Report") by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2003-04 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository, if any. The notices of material events will be filed by the City with the repositories (and with the appropriate State Repository, if any). The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

MISCELLANEOUS

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Paul C. Sundeen
Finance Director and Treasurer

By: /s/ Thomas P. Evans
Public Utilities Director

APPENDIX A

CITY OF RIVERSIDE ECONOMIC AND FINANCIAL INFORMATION

The 2004 Bonds will not be secured by any pledge of ad valorem taxes or General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Electric System. The description of the financial and economic position of the City of Riverside set forth below and on the following pages is included in the Official Statement for information purposes only.

General

The City is the county seat of Riverside County (the "County") and is located in the western portion of the County about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"). The MSA represents an important economic area of the State and of Southern California. It lies to the west and south respectively of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange Counties.

Riverside and San Bernardino Counties cover 27,400 square miles, a land area larger than the State of Virginia. With a population of over 3.4 million, it ranks as one of the largest MSAs in the United States. Riverside County alone is larger than the State of New Jersey. The MSA, though small geographically in relation to the bi-county area, contains most of the two counties' population.

Municipal Government

The City was incorporated in 1883 and covers 85.6 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council. Functions of the City government are carried out by approximately 2,100 full and part-time personnel. The City operates and maintains a sewer system. Water is supplied by the City system. Electricity is provided by the City-owned electric utility system. Other City services include diversified recreation programs, parks, a museum and libraries.

Employee Relations

City employees are covered by memoranda of understanding with four primary employee organizations: Service Employees International Union/Public Employees Association of Riverside County; Police Officers' Association; Fire Fighters' Association; and the International Brotherhood of Electrical Workers.

Population

As of January 1, 2004 the population of the City was approximately 277,000, an increase of approximately 22% percent over the census population of the City in 1990. The following table presents population data for both the City and County.

POPULATION

<u>Year</u>	<u>City of Riverside</u>	<u>Riverside County</u>
1950.....	46,764	170,046
1960.....	84,332	306,191
1970.....	140,089	459,074
1980.....	165,087	663,923
1990.....	226,505	1,170,413
2000.....	255,165	1,545,387
2001.....	262,335	1,609,400
2002.....	265,700	1,699,112
2003.....	276,300	1,719,000
2004.....	277,000	1,776,700

Source: 1950-2000: U.S. Census. 2001-2004: State of California Department of Finance, Population Research Unit.

Personal Income

The following table is based on effective buying income, as reported in the annual publication "Survey of Buying Power," published by Sales and Marketing Management. Effective buying income is defined as personal income less personal taxes and non-tax payments. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, non-tax payments (such as fines and penalties) and personal contributions for social insurance. The following items are not included in the definition of effective buying income: (1) employer contributions to private pension funds, supplemental unemployment insurance funds and privately administered workers' compensation programs; (2) imputed personal income, which includes the imputed value of services provided by depository institutions and income earned by life insurance carriers and private noninsured pension funds on the principal amounts contributed by policy holders and pension beneficiaries; and (3) imputed rental income of owner-occupied nonfamily dwellings.

Between 1998 and 2002 the City's median household effective buying power increased 7.4%, while at the same time, the County's increased 17%, the State increased 14.5% and there was growth of 7.5% for the United States. The table below summarizes the total effective buying income and the median household effective buying income for the City, the County, the State and the United States over the five-year period from 1998 through 2002.

PERSONAL INCOME
For Calendar Years 1998 Through 2002

<u>Year and Area</u>	<u>Total Effective Buying Income (\$ in thousands)</u>	<u>Median Household Effective Buying Income</u>
1998		
City of Riverside	\$ 3,583,867	\$ 34,835
Riverside County.....	20,543,675	33,089
California	551,999,317	37,091
United States.....	4,621,491,738	35,377
1999		
City of Riverside	3,590,924	33,843
Riverside County.....	22,453,426	35,145
California	590,376,663	39,492
United States.....	4,877,786,658	37,233
2000		
City of Riverside	3,735,911	37,395
Riverside County.....	25,144,120	39,293
California	652,190,282	44,464
United States.....	5,230,824,904	38,129
2001		
City of Riverside	3,636,701	37,231
Riverside County.....	23,617,301	34,480
California	650,521,407	43,532
United States.....	5,303,481,498	38,365
2002		
City of Riverside	3,874,905	37,406
Riverside County.....	25,180,040	38,691
California	647,879,427	42,484
United States.....	5,340,682,818	38,035

Source: Sales and Marketing Management, Survey of Buying Power.

A comparison of effective buying income groupings per household for 2002 is shown in the following table:

INCOME GROUPINGS FOR 2002

<u>Percent of Households by EBI Group</u>	<u>City of Riverside</u>	<u>Riverside County</u>	<u>State of California</u>
\$20,000-34,999	24.3%	23.6%	21.1%
35,000-49,999	19.7	20.4	18.9
50,000 and over.....	33.5	34.0	40.5

Source: Sales and Marketing Management, Survey of Buying Power.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 56 elementary and middle schools and high schools. There are also about 46 private or parochial schools for kindergarten through twelfth grade. Average daily attendance for the two public school districts is given below.

COUNTY OF RIVERSIDE PUBLIC SCHOOL ENROLLMENT Fiscal Years 1999 through 2003

<u>Grades</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
K-8.....	211,973	219,433	228,348	237,880	247,845
9-12.....	83,256	87,622	91,562	95,450	101,762
Total.....	<u>295,229</u>	<u>307,055</u>	<u>319,910</u>	<u>333,330</u>	<u>349,607</u>

Source: State Department of Education.

Locally, higher education is available at four institutions: Riverside Community College, which had an enrollment of approximately 30,945 in the Fall of 2003; University of California at Riverside, which had a graduate and undergraduate enrollment of approximately 17,296 in the Fall of 2003; California Baptist University, which had an enrollment of 2,148 in the Fall of 2003; and La Sierra University at Riverside, which had an enrollment of approximately 1,940 in the Fall of 2003. Also located in the City are the California School for the Deaf, which had an enrollment of 455 during the Fall of 2003, and the Sherman Indian High School, a federally-run school for Indians, which had an enrollment of 650 during the Fall of 2003.

Employment

Annual employment information is unavailable separately for the City. The City is part of the MSA. The MSA's civilian labor force increased to an annual average of 1,687,400 in 2003 from the 1,450,600 average in 1999. The following table summarizes the labor force employment and unemployment figures over the five years indicated for the MSA, the State and the United States.

LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT
Yearly Average for Calendar Years 1999 through 2003

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
1999				
MSA	1,450,600	1,376,500	74,100	5.1%
California	16,596,500	15,731,700	864,800	5.2
United States	139,004,000	133,021,000	5,983,000	4.3
2000				
MSA	1,522,900	1,445,300	77,600	5.1
California	17,090,800	16,245,600	845,200	4.9
United States	140,645,000	134,976,000	5,669,000	4.0
2001				
MSA	1,575,100	1,496,100	79,000	5.0
California	17,182,900	16,260,100	922,800	5.4
United States	142,314,000	134,055,000	8,259,000	5.8
2002				
MSA	1,646,900	1,549,700	97,200	5.9
California	17,404,600	16,241,800	1,162,800	6.7
United States	142,542,000	133,952,000	8,590,000	6.0
2003				
MSA	1,687,400	1,587,800	99,600	5.9
California	17,460,000	16,282,700	1,177,300	6.7
United States	146,510,000	137,736,000	8,774,000	6.0

Source: California Employment Development Department.

The following table presents the distribution of persons in various wage and salary employment categories in the MSA as of March 2003 and March 2004.

**MONTHLY EMPLOYMENT COMPARISON RIVERSIDE MSA
(In Thousands)**

<u>Industry</u>	<u>March 2003</u>	<u>March 2004⁽¹⁾</u>
Farm	20.4	20.2
Mining	1.3	1.2
Construction	94.2	96.9
Manufacturing – Durables	81.8	79.2
Manufacturing – Nondurables	33.2	33.3
Transportation and Public Utilities	46.5	48.8
Trade: Wholesale	43.5	44.0
Trade: Retail	138.9	144.9
Finance, Insurance, Real Estate	40.9	43.5
All Other Services	388.8	397.6
Government	217.3	213.3
Total	1106.8	1122.9

(1) Preliminary.

Source: California Employment Development Department.

Housing

The 2000 federal census reported 86,469 housing units in the City, an increase of approximately 10% since 1990. In 2000, approximately 67% of the City's total housing stock consisted of single family units, and approximately 57% of all housing units were owner-occupied. The following table summarizes the changes in the City's housing stock since 1970.

**CITY OF RIVERSIDE
Change in Housing Stock**

<u>Type</u>	<u>April 1970</u>	<u>April 1980</u>	<u>January 1990</u>	<u>January 2000</u>
Single family	36,277	45,770	52,523	57,889
2-4 units	3,624	4,822	5,165	5,287
5 or more units	5,395	11,788	18,985	21,166
Mobile homes	632	1,348	1,894	2,127
Total units	45,928	63,728	78,567	86,469

Source: California State Department of Finance.

Construction Activity

The total valuation of building permits issued in the City equaled \$405,000,000 in fiscal year 2003, an increase of approximately 13.2% from fiscal year 2002. The following table provides a summary of building permit valuations and the number of new dwelling units authorized in the City during the past five years.

CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY
For Calendar Years 1999 Through 2003

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Valuation (\$ in millions)					
Residential	\$209.8	\$272.3	\$283.1	\$250.0	\$273.0
Nonresidential	59.7	38.0	95.4	107.8	132.0
Total.....	<u>\$269.5</u>	<u>\$310.3</u>	<u>\$378.5</u>	<u>\$357.8</u>	<u>\$405.0</u>
New Dwelling Units					
Single Family	825	1,017	1,237	1,113	689
Multiple Family	846	895	40	0	1,377
Total.....	<u>1,671</u>	<u>1,912</u>	<u>1,277</u>	<u>1,113</u>	<u>2,066</u>

Source: City of Riverside Planning Department.

Retail Sales

The following table indicates growth of taxable transactions for the period 1998 through 2002 in the City by type of business:

CITY OF RIVERSIDE TAXABLE TRANSACTIONS
For Calendar Years 1998 Through 2002
(\$ in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Apparel stores.....	\$ 68.9	\$ 78.6	\$ 92.2	\$ 98.9	\$105.5
General merchandise stores.....	411.8	438.1	465.5	485.6	510.0
Food stores.....	121.4	126.0	133.3	134.5	136.1
Eating and drinking places.....	196.7	209.0	223.3	239.8	257.7
Home furnishings and appliances.....	65.7	74.8	77.6	75.8	81.8
Building materials and farm implements.....	253.9	275.4	290.7	326.6	346.3
Service stations.....	129.2	151.4	200.2	199.2	193.0
Automobile dealers and suppliers.....	505.4	580.8	698.1	780.6	864.5
Miscellaneous.....	285.6	314.0	341.3	351.1	396.8
Total retail outlets.....	<u>2,038.6</u>	<u>2,248.1</u>	<u>2,522.2</u>	<u>2,692.1</u>	<u>2,891.6</u>
All other outlets.....	563.4	661.4	697.8	715.2	769.3
Total all outlets.....	<u>\$2,602.0</u>	<u>\$2,909.5</u>	<u>\$3,220.0</u>	<u>\$3,407.3</u>	<u>\$3,661.0</u>

Source: California State Board of Equalization.

Community Facilities

Among the City's cultural institutions and activities are a convention center, a municipal art center, a museum, a library, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community; Riverside Community; and Kaiser Permanente, with respective bed capacities of 193, 369 and 215, totaling 777.

Transportation

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available

via Greyhound, and local bus service is provided by the Southern California Rapid Transit District and Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

To support transportation improvements, in November 1988 Riverside County voters approved Measure A, a one-half cent sales tax increase. This sales tax will run for 20 years. In 1990, voters of San Bernardino County approved a similar program.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEARS ENDED
JUNE 30, 2003 AND JUNE 30, 2002**

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Independent Auditors' Report

To the Honorable City Council and Board of Public Utilities
City of Riverside, California

We have audited the accompanying financial statements of the City of Riverside Electric Utility as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the City of Riverside Electric Utility for the year ended June 30, 2002, were audited by other auditors whose report, dated September 30, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the City of Riverside Electric Utility are intended to present the financial position and the changes in financial position and cash flows for the City of Riverside Electric Utility and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside Electric Utility as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside Electric Utility's basic financial statements. The supplementary information entitled Electric Statistics, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Electric Utility. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

McGladrey & Pullen, LLP

Riverside, California
September 30, 2003

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of the City of Riverside Electric Utility financial statements this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information furnished in our fiscal message on page 2 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

The assets of the Electric Utility exceeded its liabilities at the close of the most recent fiscal year by \$164,754 (equity). Of this amount, \$89,665 may be used to meet the Utility's ongoing obligations to creditors and customers.

The Utility's total equity increased by \$12,382 from the prior fiscal year, primarily due to an additional \$8.4 million in net transmission revenue received as the result of becoming a Participating Transmission Owner (PTO) with the California Independent System Operator (ISO) as of January 1, 2003 and contributions from developers totaling \$4.4 million.

At the end of the current fiscal year, unrestricted equity represented over 51 percent of annual operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Riverside Electric Utility financial statements. The Electric Utility is a department of the City of Riverside, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Riverside Electric Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Riverside Comprehensive Annual Financial Report.

The City of Riverside Electric Utility's financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader additional information about the Electric Utility, including sales statistics and other relevant data.

Included as part of the financial statements are three separate statements.

The *Balance Sheets* present information on assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the utility is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Equity* present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, i.e. accounts payable and accounts receivable. This is called the accrual basis of accounting and is more fully described in the accompanying Notes to the Financial Statements.

The *Statements of Cash Flows* present the cash flow changes occurring during the last two fiscal years in highly liquid cash and cash equivalents, including certain restricted assets.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 to 22 of this report.

Utility Financial Analysis

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities by \$164,754 at the close of the most recent fiscal year.

A portion of the Utility's net assets (30 percent) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. The Electric Utility uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since the capital assets themselves cannot be used to liquidate these long-term liabilities.

The unrestricted portion of the Utility's net assets (54 percent) may be used to meet the Utility's ongoing obligations to creditors and customers.

Management's Discussion and Analysis

City of Riverside Electric Utility's Equity (Net Assets)

	2003	2002
Current and other assets	\$ 186,932	\$ 186,583
Capital assets	272,319	264,309
Total assets	459,251	450,892
Long-term debt outstanding	221,921	232,684
Other liabilities	72,576	65,836
Total liabilities	294,497	298,520
Equity (net assets):		
Invested in capital assets, net of related debt	49,303	44,615
Restricted	25,786	23,723
Unrestricted	89,665	84,034
Total equity (net assets)	\$ 164,754	\$ 152,372

An additional portion of the Electric Utility's equity (16 percent) represents resources that are subject to external restrictions on how they may be used. These are reserved for items such as debt repayment and other legally restricted assets.

The Electric Utility's equity increased by \$12,382 during the current fiscal year. The increase can primarily be attributed to an additional \$8.4 million in net transmission revenue received as the result of becoming a PTO with the ISO as of January 1, 2003, and contributions from developers totaling \$4.4 million.

Key elements of the increase in equity are as follows:

City of Riverside Electric Utility's Changes in Equity (Net Assets)

	2003	2002
Revenues:		
Retail sales	\$ 175,622	\$ 166,171
Wholesale sales	17,806	47,885
Transmission revenue	8,661	273
Investment income	4,286	6,670
Other	3,402	3,021
Total revenues before (reserve)/ recovery	209,777	224,020
Less reserve for bad debt, net of recoveries	(1,218)	1,635
Total revenues before capital contributions	208,559	225,655
Capital contributions	4,360	5,485
Total revenues and capital contributions	212,919	231,140
Expenses:		
Production	116,159	150,893
Transmission	21,538	18,748
Distribution	22,554	20,798
Depreciation	13,516	12,787
Interest expense	11,437	10,306
Total expenses	185,204	213,532
Contributions to the City's general fund	15,333	15,324
Total expenses and contributions to the City's general fund	200,537	228,856
Increase in equity (net assets)	12,382	2,284
Equity, beginning of year	152,372	150,088
Equity, end of year	\$ 164,754	\$ 152,372

Management's Discussion and Analysis

Retail sales (residential, commercial, industrial and other sales) continue to be the primary revenue source for the Electric Utility making up 83 percent of total revenue. Retail sales showed an increase of 5.7 percent from the prior year due to a 3.4 percent overall rate increase that became effective November 1, 2002, and 3.5% load growth.

Wholesale sales decreased 63 percent below the prior year levels. The decrease from the prior year is due to a 31 percent decrease in the volume of excess power sales, as well as lower prices received for excess power.

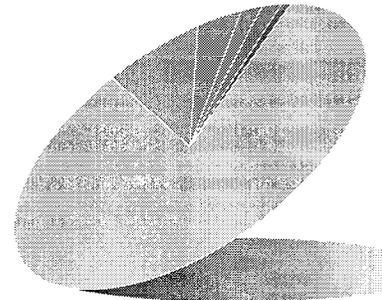
On January 1, 2003, the City turned over operational control of its transmission facilities and became a Participating Transmission Owner (PTO) with the California Independent System Operator (ISO). As a PTO, the City is entitled to and is receiving compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC). The California Investor Owned Utilities (IOUs), the California Department of Water Resources (CDWR), and the California Public Utilities Commission (CPUC), among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement to the FERC in July 2003, and if accepted by the FERC, TRR refunds of \$1.1 million will be made to the ISO for the fiscal year ended June 30, 2003. This amount has not been included in income and amounts collected are properly reflected in accounts payable in the Balance Sheets at June 30, 2003.

The settlement agreement disposes of all City TRR issues except for CDWR and the CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's operational control. Although the City believes it will ultimately prevail and will vigorously defend its position, an adverse ruling on this issue could require the City to refund up to an additional \$5.3 million of revenues earned during the year ended June 30, 2003. As TRR amounts are received from the ISO, the City will set these amounts aside in an internally restricted reserve account until this issue is resolved at the FERC. It is not expected that this issue will be resolved until sometime in 2004. From January 1, 2003 to June 30, 2003 the City recorded \$8.4 million of transmission revenue due to its PTO status.

Investment income decreased by \$2,384, or 36 percent over prior year levels. The decrease is related to an overall decrease in the Utility's cash and investments due to construction activity and market conditions that continue to be poor, which have resulted in lower earnings for the Utility's investment portfolio.

Capital contributions decreased 21 percent from prior year levels. While the level of projects remained consistent with the prior year, the types of projects constructed in the current year contained more internally funded system improvements rather than those which are customer funded through developer fees.

Revenues by Sources - Electric Utility



- Retail Sales (83%)
- Wholesale Sales (8%)
- Transmission Revenue (4%)
- Investment income (2%)
- Capital Contributions (2%)
- Other (1%)

Management's Discussion and Analysis

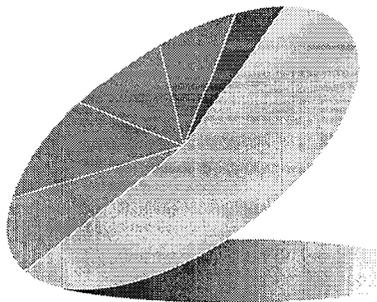
Total expenses for the Electric Utility decreased by 13 percent from last fiscal year. Although the Utility experienced increases in certain operating expenses in the current year (negotiated salary increases with various unions as well as general cost of living type increases for other cost categories), these were more than offset by an overall decrease in power production costs. Power production costs were lower mainly due to a more stable power market and the expiration of short term purchased power contracts, entered into during the power crisis, at prices substantially higher than those experienced in the current year.

Transmission expenses increased by 15 percent. The increase is due to existing transmission contracts that expired as of December 31, 2002, which resulted in an additional \$2.2 million in transmission costs for the period of January 1, 2003 through June 30, 2003. These contracts had five-year fixed prices and had previously protected the Utility from expensive high voltage access charges by the ISO.

Distribution costs increased 8 percent from last fiscal year. The increase as compared to prior year is mostly due to negotiated salary increases, including related benefits, and increased information technology staffing needs.

Contributions to the City's general fund are based on a formula using operating revenues from the prior fiscal year. This amount also increased by 9 or .1 percent.

Expenses by Sources - Electric Utility



- Production (58%)
- Distribution (11%)
- Transmission (11%)
- Contributions to City's General Fund (8%)
- Depreciation (7%)
- Interest Expense (5%)

CAPITAL ASSET AND DEBT ADMINISTRATION

The Electric Utility's investment in capital assets as of June 30, 2003 amounts to \$272,319 (net of accumulated depreciation). This includes investments in production, transmission, and distribution related facilities, as well as general items such as office equipment, furniture, etc. This fiscal year showed a 3 percent increase in capital assets over the prior year.

Major capital assets constructed during the current fiscal year included:

- Various capital additions at the City's San Onofre Nuclear Generating Station (SONGS) equal to \$482.
- Capital infrastructure additions to serve existing customers and connect new customers to the system totaled \$10,500
- Capital additions to maintain the obligation to serve and improve community relations totaled \$8,400 (Projects include Springs Generation and the overhead-to-underground program).

City of Riverside Electric Utility's Capital Assets (Net of depreciation)

	2003	2002
Production	\$ 86,473	\$ 45,710
Transmission	6,584	6,938
Distribution	148,058	144,934
General	13,742	14,474
Construction in progress	16,335	50,856
Nuclear fuel, at amortized costs	1,127	1,397
Total	\$ 272,319	\$ 264,309

Additional information regarding capital assets can be found in Note 1 on page 13 and in Note 3 on Page 16 of this report.

Management's Discussion and Analysis

Long-term Debt

At the end of the current fiscal year, the City of Riverside's Electric Utility had long-term debt outstanding of \$221,921. This debt is backed by the revenue of the utility (revenue bonds).

City of Riverside Electric Utility's Outstanding Debt (Revenue Bonds and Capital Lease Obligation)

	2003	2002
Revenue bonds	\$230,635	\$ 238,475
Capital lease obligation	0	11
Less: Current portions	(10,780)	(7,851)
Unamortized premium	2,066	2,049
Total	\$ 221,921	\$ 232,684

The Electric Utility maintains an "A+" rating from Standard & Poor's and Fitch Inc. for its revenue bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 17 and 18 of this report.

Economic Factors and Rates

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, history has shown that certain costs such as purchased power during the California energy crisis can exponentially exceed inflation. The FERC imposed a

price cap on purchased power in June 2001 and is still in effect, which continues to help stabilize power prices. Prior to the price cap, when the FERC refused to intervene and help stabilize the market, Californians did not see a resolution to the high power prices. As a hedge against the unreasonably high power prices, the Utility entered into short term agreements to purchase power at costs in excess of historic market levels. The last of those agreements for high cost power is reflected in the current year financial statements as production costs. The forward price curves have stabilized; however, regulatory actions and other factors could impact them.

The City Council has approved Electric rate increases for three consecutive years. These increases are an overall 3.4 percent, 3.1 percent, and 2.2 percent effective November 1, 2002, 2003, and 2004, respectively, and will help strengthen the Utility's financial stability by meeting the expected increased costs to operate the Utility, improve system reliability, and increase cash reserve levels.

In addition to inflation, management continually plans for and identifies issues or potential contingencies that could impact future rates, such as system expansion, infrastructure needs, accelerated debt payments, future supply costs, regulatory changes, and others.

The Board of Public Utilities has a goal of having rate increases not to exceed 5 percent per year. This requires proper planning as well as building reserves to handle system emergencies or disasters, as well as certain other one-time costs.

Requests for Information

This financial report is designed to provide a general overview of the City of Riverside Electric Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant Director Finance/Resources, City of Riverside Public Utilities, 3900 Main Street, 4th floor, Riverside, CA 92522.

Balance Sheets

ASSETS	JUNE 30 2003	JUNE 30 2002
	(in thousands)	
UTILITY PLANT:		
Production	\$ 174,035	\$ 128,009
Transmission	15,043	15,025
Distribution	241,531	232,056
General	25,190	24,626
	455,799	399,716
Less accumulated depreciation	(200,942)	(187,660)
	254,857	212,056
Construction in progress	16,335	50,856
Nuclear fuel, at amortized cost	1,127	1,397
Total utility plant (Note 3)	272,319	264,309
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	29,186	38,515
Investments (Note 2)	43,230	39,995
Public benefit programs receivable	620	826
Total restricted assets	73,036	79,336
OTHER NON-CURRENT ASSETS:		
Unamortized purchased power (Note 8)	21,715	25,056
Unamortized bond issuance costs	2,360	2,517
Unamortized bond refunding costs	3,629	3,784
Total other non-current assets	27,704	31,357
Total non-current assets	373,059	375,002
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	47,244	45,030
Accounts receivable, less allowance for doubtful accounts 2003 \$263; 2002 \$239	20,891	19,022
Accounts receivable other utilities, less allowance for doubtful accounts 2003 \$2,262; 2002 \$8,783	11,016	5,768
Accrued interest receivable	613	602
Prepaid expenses	5,278	4,371
Nuclear materials inventory	1,150	1,097
Total current assets	86,192	75,890
Total assets	\$ 459,251	\$ 450,892

See accompanying notes to the financial statements

Balance Sheets

EQUITY AND LIABILITIES	JUNE 30 2003	JUNE 30 2002
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	\$ 49,303	\$ 44,615
Restricted for debt service (Note 5)	25,786	23,723
Unrestricted	89,665	84,034
Total equity	<u>164,754</u>	<u>152,372</u>
LONG-TERM DEBT, LESS CURRENT PORTION (NOTES 4 AND 10):	<u>221,921</u>	<u>232,684</u>
OTHER NON-CURRENT LIABILITIES:		
Nuclear decommissioning liability (Notes 1 and 4)	<u>38,144</u>	<u>34,855</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	2,808	2,906
Deferred revenue, public benefit programs	3,630	4,291
Current portion of long-term debt (Notes 4 and 10)	<u>10,780</u>	<u>7,840</u>
Total current liabilities payable from restricted assets	<u>17,218</u>	<u>15,037</u>
CURRENT LIABILITIES:		
Accounts payable	9,736	8,136
Accrued liabilities	4,608	4,684
Current portion of long-term debt (Notes 4 and 10)	0	11
Customer deposits (Note 1)	<u>2,870</u>	<u>3,113</u>
Total current liabilities	<u>17,214</u>	<u>15,944</u>
Total liabilities	<u>294,497</u>	<u>298,520</u>
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)		
Total equity and liabilities	<u>\$ 459,251</u>	<u>\$ 450,892</u>

See accompanying notes to the financial statements

CITY OF RIVERSIDE PUBLIC UTILITIES

Statements of Revenues, Expenses and Changes in Equity

FOR THE FISCAL YEARS
ENDED JUNE 30
2003 2002
(in thousands)

OPERATING REVENUES:

Residential sales	\$ 68,649	\$ 64,625
Commercial sales	48,974	46,265
Industrial sales	52,380	49,487
Other sales	5,619	5,794
Wholesale sales	17,806	47,885
Transmission revenue	8,661	273
Other operating revenue	2,230	1,777
Total operating revenues before (reserve)/recovery	204,319	216,106
Reserve for uncollectible	(1,257)	(1,129)
Bad debt recovery	39	2,764
Total operating revenues, net of (reserve)/recovery	203,101	217,741

OPERATING EXPENSES:

Production	116,159	150,893
Transmission	21,538	18,748
Distribution	22,554	20,798
Depreciation	13,516	12,787
Total operating expenses	173,767	203,226
Operating income	29,334	14,515

NON-OPERATING REVENUES (EXPENSES):

Investment income	4,286	6,670
Interest expense	(11,437)	(10,306)
Gain on retirement of utility plant	387	223
Other	785	1,021
Total non-operating revenues (expenses)	(5,979)	(2,392)
Income before capital contributions and transfers	23,355	12,123
Capital contributions	4,360	5,485
Transfers out - contributions to the City's general fund	(15,333)	(15,324)
Total capital contributions and transfers out	(10,973)	(9,839)
Increase in equity	12,382	2,284
EQUITY, BEGINNING OF YEAR	152,372	150,088
EQUITY, END OF YEAR	\$ 164,754	\$ 152,372

See accompanying notes to the financial statements

Statements of Cash Flows

For the Fiscal Years
Ended June 30
2003 2002
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 195,946	\$ 220,959
Cash paid to suppliers and employees	(152,545)	(191,039)
Net cash provided by operating activities	43,401	29,920
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(15,333)	(15,324)
Other non-operating revenue	785	1,021
Net cash used by non-capital financing activities	(14,548)	(14,303)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(19,870)	(51,276)
Purchase of nuclear fuel	(903)	(944)
Proceeds from the sale of utility plant	567	285
Proceeds from sale of revenue bonds, net of premium	0	48,617
Principal paid on long-term debt	(7,850)	(7,395)
Interest paid on long-term debt	(11,206)	(10,166)
Capital contributions	2,254	2,498
Net cash used by capital and related financing activities	(37,008)	(18,381)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(3,235)	(8,114)
Income from investments	4,275	6,996
Net cash provided (used) by investing activities	1,040	(1,118)
Net decrease in cash and cash equivalents	(7,115)	(3,882)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR ¹	83,545	87,427
CASH AND CASH EQUIVALENTS, END OF YEAR ¹	\$ 76,430	\$ 83,545
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 29,334	\$ 14,515
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	13,516	12,787
Amortization/burn of nuclear fuel	4,514	1,612
Decrease in allowance for uncollectible accounts receivable	(6,497)	(2,309)
Decrease (increase) in accounts receivable	(415)	4,517
Increase in prepaid expenses	(907)	(183)
Increase in nuclear materials inventory	(53)	(73)
Increase (decrease) in accounts payable	1,600	(906)
Increase (decrease) in accrued liabilities	(76)	64
Decrease in public benefit program deferred revenue	(661)	(4,442)
Increase (decrease) in customer deposits	(243)	1,010
Increase in nuclear decommissioning liability	3,289	3,328
Net cash provided by operating activities	\$ 43,401	\$ 29,920
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions	\$ 2,106	\$ 2,987

See accompanying notes to the financial statements

¹ Cash and cash equivalents also include cash and cash equivalents in restricted assets.

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies

The Electric Utility exists under, and by virtue of, the City Charter enacted in 1883. The Electric Utility is responsible for the generation, transmission and distribution of electric power for sale in the City.

■ **Basis of Accounting** The accounting records of the Electric Utility are in accordance with accounting principles generally accepted in the United States of America as applicable to governments and substantially in conformity with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Electric Utility is not subject to the regulations of the FERC. The Electric Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

■ **Revenue Recognition** The Electric Utility uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$9,282,000 at June 30, 2003, and \$8,149,000 at June 30, 2002.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible. The significant decrease in the allowance for fiscal year 2003 is related to settlement of a dispute with Southern California Edison and the write-off of amounts previously considered uncollectible.

■ **Utility Plant and Depreciation** Utility plant assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits; and certain administrative and general expenses. Contributed plant assets are valued at estimated fair market value on the date contributed. The cost of relatively minor replacements is included in maintenance expense.

Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Production plant	9-30 years
Transmission and distribution plant	20-50 years
General plant and equipment	3-15 years

■ **Nuclear Fuel** The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one mill per kilowatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Co (SCE), on a quarterly basis (see Note 7).

■ **Restricted Assets** Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds set aside for the nuclear decommissioning reserve are also classified as restricted assets because their use is legally restricted to a specific purpose.

In January 1998, the Electric Utility began collecting a surcharge for public benefit programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for public benefit programs is reflected in the accompanying financial statements as a restricted asset and deferred revenue.

■ **Cash and Investments** The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and certain trust agreements. Cash accounts for all City funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Interest income earned on pooled cash is allocated monthly to the various funds of the City based on the month-end cash balances. Cash and investments held by fiscal agents are credited directly to the related accounts.

The Utility values its cash and investments in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies (Continued)

and recognize the corresponding change in the fair value of investments in the Statement of Revenues, Expenses and Changes in Equity in the year in which the change occurred. Fair value is determined using quoted market prices.

All highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. Cash and investments held on behalf of the Electric Utility by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the statement of cash flows.

■ **Bond Discounts and Issuance Costs** Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount, whereas issuance costs are recorded as other assets.

■ **Nuclear Decommissioning Liability** Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent cost estimate completed by ABZ Incorporated, the Electric Utility plans to set aside approximately \$1.6 million per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying balance sheet. To date, the Electric Utility has set aside \$38,144,000 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

■ **Competitive Transition Account** A Competitive Transition Account (CTA) was established in June 1998 after approval by the Board

of Public Utilities and the City Council. This new account was funded by a transfer of \$23.5 million from a rate stabilization account and \$10 million from an operating cash reserve account. The CTA is an internally restricted asset and the Board and City Council will approve usage of funds on an annual or as-needed basis for purposes of handling competitive financial issues. This account was established for a short-term period (five years) during the anticipated phase-in of retail competition in the electric utility industry. Possible fund uses include early pay down of generation-related debt or long-term contracts, rate stabilization or other competitive purposes. The balance in the CTA at June 30, 2003 and 2002, was \$29.0 and \$27.9 million, respectively, and is reflected as a current asset in the accompanying financial statements as part of cash and cash equivalents.

Effective July 1, 2003, the City Council approved the dissolution of the Competitive Transition Account. The funds from the Competitive Transition Account are to be used for establishing a Regulatory Risk Reserve Account for \$4.0 million, an Energy Risk Management Reserve Account for \$11.0 million and transferring the remaining balance of \$14.0 million to the Operating Reserve Account, all of which are considered internally restricted assets.

■ **Customer Deposits** The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2003 and 2002, was \$2,870,000 and \$3,113,000, respectively.

■ **Compensated Absences** The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2003 and 2002. The Electric Utility treats compensated absences due employees as a current liability. The amount accrued for compensated absences was \$4,115,000 at June 30, 2003, and \$4,317,000 at June 30, 2002, and is included in accrued liabilities in the accompanying balance sheets.

Employees receive 10 to 25 vacation days per year based upon length of service. A maximum of two years vacation may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death only, a percentage of unused sick leave is paid to certain employees or their estates in a lump sum based on longevity.

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies (Continued)

■ **Self-Insurance Program** The Electric Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and incurred but unreported claims based upon past experience, modified for current trends and information.

Although the ultimate amount of losses incurred through June 30, 2003, is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were \$385,000 and \$306,000 for the years ended June 30, 2003 and 2002. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

■ **Employee Retirement Plan** The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the state of California.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest average annual salary for each year of service completed. PERS also provides death and disability

benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are 7 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Electric Utility pays both the employee and employer contributions.

Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2003, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2003.

■ **Contributions to the City's General Fund** Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2002-03 and 2001-02, the Electric Utility transferred approximately 9.0 percent of gross operating revenues, or \$15,333,000 and \$15,324,000, respectively.

■ **Budgets and Budgetary Accounting** The Electric Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Electric Utility's budget in June each year via a resolution.

■ **Reclassifications** Certain reclassifications have been made to the prior year's financial statements to conform with the current year's presentation.

NOTE 2. Cash and Investments

Cash and investments at June 30, 2003 and 2002, consist of the following (in thousands):

	June 30, 2003	June 30, 2002
	Fair Value	
Deposits with City Treasurer's investment pool	\$ 70,954	\$ 67,078
Cash and investments at fiscal agent	48,706	56,462
	\$119,660	\$123,540

The amounts above are reflected in the accompanying financial statements as:

	June 30, 2003	June 30, 2002
Cash and cash equivalents	\$ 47,244	\$ 45,030
Restricted assets:		
Cash and cash equivalents	29,186	38,515
Investments	43,230	39,995
	72,416	78,510
	\$ 119,660	\$ 123,540

Notes to the Financial Statements

NOTE 2. Cash and Investments (Continued)

■ Authorized Investments Under provisions of the City's investment policy and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

- Securities of the U.S. government, or its agencies
- Local agency investment fund (state pool) deposits
- Small Business Administration loans
- Passbook savings account demand deposits
- Negotiable certificates of deposits
- Repurchase agreements
- Banker's acceptances
- Mutual funds
- Commercial paper of "prime" quality
- Medium-term corporate notes

■ Credit Risk, Carrying Amount and Market Value of Deposits and Investments Cash and non-negotiable certificates of deposit are classified in three categories of custodial credit risk as follows: Category 1 — insured or collateralized with securities held by the City or its agent in the City's name; Category 2 — collateralized with securities held by the

pledging financial institution's trust department or agent in the City's name; Category 3 — uncollateralized.

Investments are also classified in three categories of custodial credit risk as follows: Category 1 — insured or registered, or securities held by the City or its agent in the City's name; Category 2 — uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; Category 3 — uninsured and unregistered, with securities held by the counterparty's trust department or agent but not in the City's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

The Electric Utility's share of the City's investment pool at June 30, 2003, represents approximately 32 percent or \$119,660,000 of the City's total cash and investments of \$379,318,000. Information concerning credit risk and fair value of the City's deposits and investments may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2003. Cash and investments at fiscal agent are insured or registered, or held in the name of the Electric Utility or its agent (category 1), or are not subject to risk categorization.

NOTE 3. Utility Plant

The following is a summary of changes in utility plant during the fiscal year ended June 30, 2003 and 2002 (in thousands):

	Balance, As of 7/1/2001	Additions	Deletions/ Transfers	Balance, As of 6/30/2002	Additions	Deletions/ Transfers	Balance, As of 6/30/2003
Production	\$127,482	\$ 527	\$ 0	\$128,009	\$ 46,026	\$ 0	\$174,035
Transmission	15,032	6	(13)	15,025	18	0	15,043
Distribution	212,340	19,941	(225)	232,056	9,790	(315)	241,531
General	24,549	520	(443)	24,626	664	(100)	25,190
Construction in progress	17,589	54,280	(21,013)	50,856	19,870	(54,391)	16,335
Nuclear fuel	2,065	944	(1,612)	1,397	903	(1,173)	1,127
Subtotal	399,057	76,218	(23,306)	451,969	77,271	(55,979)	473,261
Less accumulated depreciation	(175,494)	(12,786)	620	(187,660)	(13,516)	234	(200,942)
Total utility plant	\$223,563	\$ 63,432	(\$22,686)	\$264,309	\$ 63,755	(\$55,745)	\$ 272,319

Notes to the Financial Statements

NOTE 4. Long-Term Obligations

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2003 and 2002 (in thousands):

	Balance, As of 7/1/2001	Additions	Reductions	Balance, As of 6/30/2002	Additions	Reductions	Balance, As of 6/30/2003
Revenue bonds	\$ 199,263	\$ 48,618	(\$7,357)	\$ 240,524	\$ 0	(\$7,823)	\$ 232,701
Capital leases	22	0	(11)	11	0	(11)	0
Nuclear decommissioning liability (Note 1)	31,527	3,328	0	34,855	3,289	0	38,144
Total long-term obligations	\$ 230,812	\$ 51,946	(\$7,368)	\$ 275,390	\$ 3,289	(\$7,834)	\$ 270,845

Long-term debt consist of the following (in thousands):

■ Capital Lease

Equipment Purchased Through Capital Lease:

\$54,339 capital lease due in monthly installments of \$1,115 through December 31, 2002, interest at 8.5 percent

Total capital lease

June 30, 2003 June 30, 2002

\$ 0	\$ 11
0	11

■ Revenue Bonds Payable

\$68,175,000 1991 Electric Revenue Bonds: Final payment on unrefunded portion was paid October 1, 2002

0 1,955

\$118,550,000 1993 Electric Refunding Revenue Bonds: \$92,245,000 serial bonds due in annual installments from \$5,970,000 to \$8,005,000 through October 1, 2010, interest from 4.7 percent to 5.3 percent; \$26,305,000 term bonds due October 1, 2013, interest at 5.0 percent (Note 10)

81,380 87,115

\$4,100,000 1994 FARECal Electric Revenue Bonds: \$2,105,000 serial bonds due in annual installments from \$160,000 to \$220,000 through July 1, 2010, interest from 5.4 percent to 5.9 percent; \$1,995,000 term bonds due July 1, 2017, interest at 6.0 percent (Note 10)

3,310 3,460

\$98,730,000 1998 Electric Refunding/Revenue Bonds: \$63,165,000 serial bonds due in annual installments from \$4,650,000 to \$7,085,000 through October 1, 2013, interest from 4.25 percent to 5.38 percent; \$21,595,000 term bonds due October 1, 2018, interest at 5.0 percent; \$13,970,000 term bonds due October 1, 2022, interest at 5.0 percent

98,730 98,730

\$47,215,000 2001 Electric Revenue Bonds: \$47,215,000 serial bonds due in annual installments from \$2,855,000 to \$4,750,000 through October 1, 2016, interest from 2.9 percent to 5.25 percent

47,215 47,215

Total electric revenue bonds payable

230,635 238,475

Total debt

230,635 238,486

Unamortized bond premium (discount)

2,066 2,049

Total long-term debt, net of bond premium (discount)

232,701 240,535

Less: current portion

(10,780) (7,851)

Total long-term debt

\$ 221,921 \$ 232,684

Notes to the Financial Statements

NOTE 4. Long-Term Obligations (Continued)

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2003, are as follows (in thousands):

	2004	2005	2006	2007	2008	2009-2013	2014-2018	2019-2023	Total
Principal	\$ 10,780	\$ 14,140	\$ 14,775	\$ 15,475	\$ 16,225	\$ 89,715	\$ 52,475	\$ 17,050	\$230,635
Interest	11,123	10,579	9,940	9,241	8,496	29,379	9,187	2,216	90,161
Unamortized bond (discount) premium	84	143	144	145	146	725	570	109	2,066
Total	\$ 21,987	\$ 24,862	\$ 24,859	\$ 24,861	\$ 24,867	\$ 119,819	\$ 62,232	\$ 19,375	\$322,862

■ **Debt Service Coverage Ratio** The Electric Utility's bond indentures require the Electric Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Electric Utility's debt service coverage ratio was 2.91 at June 30, 2003, and 2.27 at June 30, 2002.

NOTE 5. Restricted Equity

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The reserve for Riverside's portion of FARECal revenue bonds is equal to 10 percent of the program agreement amounts. Additional reserves for the 1998 and 1991 revenue bonds are not required due to the purchase of surety bonds to cover the required reserve requirements.

NOTE 6. Jointly-Governed Organizations

■ **Southern California Public Power Authority** On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the state of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to

plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2002-03 and 2001-02 fiscal years, the Electric Utility paid approximately \$20,324,000 and \$20,700,000, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production expense in the financial statements.

■ **Power Agency of California** On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (PAC) by a Joint Powers Agreement under the laws of the state of California. The City of Anaheim joined PAC on July 1, 1996. The primary purpose of PAC is to take advantage of synergies and economies of scale as a result of the five cities acting in concert. PAC has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. PAC is governed by a Board of Directors, which consists of one representative for each of the members. The term of the Joint Powers Agreement is 50 years. Effective June 30, 2001, PAC was placed in an inactive status by the Board of Directors. The Agency can only be reactivated by authorization of the Agency Board.

Notes to the Financial Statements

■ **Financing Authority for Resource Efficiency of California** On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECal). The City of Santa Cruz joined in 1994, Trinity Public Utility District joined in 1996, and the cities of Azusa and Victorville joined in 2002. The primary purpose of FARECal is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECal is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena and the North Marin Water District and Trinity Public Utility District. The Electric Utility's portion of the FARECal debt and utility plant assets is recorded in the accompanying financial statements.

NOTE 7. Jointly-Owned Utility Project

Pursuant to a settlement agreement with SCE, dated August 4, 1972, the City was granted the right to acquire a 1.79 percent ownership interest in San Onofre Nuclear Generating Station (SONGS), Units 2 and 3, equating to 19.2 MW and 19.3 MW respectively, of the available capacity. In the settlement agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the City entered into the SONGS Participation Agreement that sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas & Electric Company, 20.00 percent; and the city of Anaheim, 3.16 percent. Maintenance and operation of SONGS remain the responsibility of SCE, as operating agent for the City.

The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for units 2 and 3 respectively. At this time, the owners of the plant have not agreed to extend operations until 2022.

There are no separate financial statements for the jointly-owned utility plant since each participant's

interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled \$128,483,000 and \$128,009,000 for fiscal years ended June 30, 2003 and 2002, respectively. Acquisition of assets are depreciated through 2013, the original license expiration date. The accumulated depreciation amounted to \$87,309,000 and \$82,300,000 for the fiscal years ended June 30, 2003 and 2002, respectively. The Electric Utility made provisions during fiscal years 2002-03 and 2001-02 for nuclear fuel burn of \$1,173,000 and \$1,612,000, respectively, and for future decommissioning costs of \$1,581,000 for 2002-03 and 2001-02 fiscal years (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in SONGS, the Electric Utility could be subject to assessment of retrospective insurance premiums in the event of a nuclear incident at San Onofre or any other licensed reactor in the United States.

NOTE 8. Commitments

■ **Take-or-Pay Contracts** The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 133.7 MW, of the generation output of IPA's 1,755 megawatt coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues. The power purchase contract requires the Electric Utility to pay certain minimum charges that are based on debt service requirements. Such payments are considered a cost of production.

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, the Electric Utility will be obligated for its proportionate share of the project cost.

Notes to the Financial Statements

NOTE 8. Commitments (Continued)

The projects and the Electric Utility's proportionate share of SCPPA's obligations, including final maturities and contract expirations are as follows:

PROJECT	PERCENT SHARE	ENTITLEMENT	FINAL MATURITY	CONTRACT EXPIRATION
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195 MW	2023	2027
Hoover Dam Uprating	31.9 percent	30 MW	2018	2017
Mead-Phoenix Transmission	4.0 percent	12 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118 MW	2020	2030

As part of the take-or-pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Management intends to pay these obligations from operating revenues received during the year that payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. Take-or-pay commitments terminate upon the later of contract expiration or final maturity of outstanding bonds for each project.

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 4.1 percent to 5.7 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

DEBT SERVICE PAYMENTS (In thousands) Year Ending June 30	IPA		SCPPA				TOTAL
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Uprating	Mead- Phoenix Transmission	Mead- Adelanto Transmission	All Projects
2004	\$ 6,093	\$ 4,320	\$ 6,907	\$ 708	\$ 156	\$ 1,651	\$ 19,835
2005	25,443	4,332	6,724	708	156	1,651	39,014
2006	25,941	1,535	6,968	708	156	1,651	36,959
2007	25,931	1,535	7,192	704	272	2,956	38,590
2008	25,594	1,535	6,693	704	271	2,951	37,748
2009-2013	128,549	13,392	33,723	3,507	1,438	14,693	195,302
2014-2018	119,134	35,709	35,683	3,469	1,324	14,604	209,923
2019-2023	91,115	0	36,994	0	771	8,704	137,584
2024-2028	7,080	0	7,091	0	0	0	14,171
Total	\$454,880	\$ 62,358	\$ 147,975	\$ 10,508	\$ 4,544	\$ 48,861	\$ 729,126

Notes to the Financial Statements

NOTE 8. Commitments (Continued)

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the years ended June 30, 2003 and 2002, are as follows:

Fiscal Year	Inter-mountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Upgrading	Total
2003	\$18,819	\$2,355	\$1,320	\$157	\$44	\$87	\$22,782
2002	\$17,832	\$2,040	\$1,607	\$209	\$45	\$99	\$21,832

These costs are included in production expense on the Statements of Revenues, Expenses and Changes in Equity.

■ **Power Purchase Agreements** The Electric Utility has executed five firm power purchase agreements. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; California Department of Water Resources (CDWR); and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

Minimum Obligations 2003-2004 (in thousands)

SUPPLIER	CAPACITY	ENERGY	TOTAL
Deseret	\$3,463	\$ 1,811	\$ 5,274
CDWR III	505	0	505
CDWR IV	658	0	658
BPA (two agreements)	1,865	0	1,865
Total	\$6,491	\$ 1,811	\$ 8,302

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret \$25 million from Electric fund reserves, which is reflected on the Balance Sheet as Unamortized purchased power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize over the remaining term of the agreement using the straight-line method. As of

June 30, 2003 and 2002, unamortized purchased power was \$21,715,000 and \$25,056,000, respectively, and the Utility had recorded amortization of \$3,341,000 and \$0, respectively.

There are two separate agreements with CDWR. CDWR III is for the purchase of 23 megawatts of capacity from May through October of each year beginning June 1, 1996, for 15 years. CDWR IV is for the purchase of 30 megawatts of capacity from May through October beginning June 1, 1996, for 15 years, subject to early termination.

The first agreement with BPA is for the purchase of firm capacity (23 megawatts in the summer months and 16 megawatts in the winter months) beginning February 1, 1991, for a period of 20 years. The second BPA agreement is for the purchase of capacity (50 megawatts during the summer months and 13 megawatts during the winter months) beginning April 30, 1996, for 20 years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 megawatts and 15 megawatts, respectively, for the remainder of the second agreement.

■ **Renewable Portfolio Standard** On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted a Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable resources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Utility also has agreements with the Automated Power Exchange and Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 13 percent of retail energy requirements, approximately 10% of total power supply.

Notes to the Financial Statements

NOTE 8. Commitments (Continued)

Long-term renewable power purchase agreements (in thousands):

SUPPLIER	TYPE	MAXIMUM CONTRACT	CONTRACT EXPIRATION	ESTIMATED ANNUAL COST FOR 2004 (in thousands)
Milliken Genco	Landfill Gas	2.5 MW	12/31/2007	\$ 1,044
Mid Valley Genco	Landfill Gas	2.5 MW	12/31/2007	1,089
Riverside County (Badlands Landfill)	Landfill Gas	1.2 MW	10/10/2003	386
Wintec	Wind	1.3 MW	4/30/2018	77
Salton Sea	Geothermal	20.0 MW	5/31/2013	10,153
Total:		27.5 MW		\$ 12,749

All contracts are contingent on energy production from specific related generating facilities. Riverside has no commitment to pay any amounts except for energy produced on a monthly basis from these facilities.

■ **Construction Commitments** As of June 30, 2003, the Electric Utility had major commitments of approximately \$3,680,000, with respect to unfinished capital projects, of which \$1.5 million is expected to be funded by others, \$1.1 million by bonds and \$1.1 million by rates.

NOTE 9. Litigation

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the Market Design and Western Markets refunding dockets.

On January 1, 2003, the City became a PTO with the ISO, entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's TRR as approved by the FERC. The California Investor Owned Utilities (IOU's), the CDWR, and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement to the FERC in July 2003, subject to the FERC's acceptance of this settlement agreement for filing. The settlement agreement disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. These TRR issues are not expected to be resolved until 2004.

If the City does not prevail in this litigation, up to \$5.3 million of transmission revenue may have to be refunded to the ISO for the fiscal year ended June 30, 2003.

On April 6, 2001, Pacific Gas & Electric (PG&E) filed for voluntary protection under Chapter 11 of the federal Bankruptcy Code. The bankruptcy proceedings (PG&E Bankruptcy) are pending in U.S. Bankruptcy Court in San Francisco, California. During the PG&E Bankruptcy, PG&E's operations are expected to continue under current management, while the Bankruptcy Court decides on the allocation of PG&E's available cash flow and assets among its various

creditors. PG&E was the largest purchaser of electricity from the Independent System Operator (ISO) and the Power Exchange (PX), and is therefore the largest creditor to the ISO and PX. Riverside is owed approximately \$1 million by the PX and approximately \$300,000 by the ISO, primarily related to PG&E. This amount was fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, and any amounts subsequently collected will be included in earnings in the period collected. The various creditors' classes recently voted on plans of reorganization prepared by PG&E and by the California Public Utilities Commission (CPUC). To settle disputes arising out of proposed competing plans of reorganization, a Settlement Plan of reorganization negotiated by CPUC and PG&E staff, and the Creditor's Committee has been presented to creditors for their vote. The Settlement Plan provides for 100% payment to all of PG&E's existing creditors in the same class as the City. A Bankruptcy Court hearing to consider the Settlement Plan and any objections is scheduled November 3, 2003.

The Electric Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Electric Utility are incidental to the ordinary course of operations of the Electric Utility and are largely covered by the City's self-insurance program. In the opinion of management and the city attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the Electric Utility.

NOTE 10. Subsequent Events

On July 31, 2003, the Electric Utility issued the 2003 Electric Refunding Revenue Bonds totaling \$75,405,000 to advance refund \$75,410,000 of the 1993 Electric Refunding Revenue Bonds and \$3,310,000 of the 1994 FARECal Bonds. The refunding was completed to take advantage of improved interest rates and realize debt service savings. Annual principle payments range from \$1,035,000 to \$8,535,000 through October 2013, with interest from 2% to 5%. The all-in true interest cost for this issue is 3.41%. The net present value cost savings exceeded \$5.4 million.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

Certain provisions of the Resolution are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Resolution.

Definitions

“Accreted Value” means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate thereof on each date specified therein. The Accreted Value at any date to which reference is made will be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, will be determined by straight-line interpolation with reference to such Accreted Value Table.

“Accreted Value Table” means the table denominated as such, and to which reference is made in, a Supplemental Resolution for any Capital Appreciation Bonds issued pursuant to such Supplemental Resolution.

“Assumed Debt Service” means, with respect to any Excluded Principal Payment for any Fiscal Year (or other designated 12 month period) on or after the Excluded Principal Payment date the sum of the amount of principal and interest which would be payable in each such Fiscal Year (or other designated 12 month period) if that Excluded Principal Payment were amortized for a period specified by the City at the time of issuance of such Bonds or Parity Debt (no greater than 30 years from the date of such Excluded Principal Payment) on a substantially level debt service basis, calculated based on a fixed interest rate equal to the rate at which the City could borrow (as of the time of calculation) for such period, as certified by a certificate of a financial advisor or investment banker delivered to the City at the time of issuance of such Bonds or Parity Debt, which may rely conclusively on such certificate, within 30 days of the date of calculation.

“Authorized Investments” means any investments in which the City may legally invest sums subject to its control, as certified to each Fiscal Agent, and will include any Designated Investments.

“BMA Municipal Bond Index” means the BMA Municipal Bond Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successor, then “BMA Municipal Bond Index” means such other reasonably comparable index selected by the City.

“Bond” or **“Bonds”** means the City of Riverside Electric Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Resolution.

“Bond Counsel” means a firm of lawyers nationally recognized in the area of tax-exempt bonds.

“Bond Obligation” means, as of any date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on such Capital Appreciation Bond is compounded next preceding such date of calculation (unless such date of calculation is a date on which such interest is compounded, in which case, as of such date).

“Bond Register” means the Bond Register as defined in the Resolution.

“Bond Service Account” means the Electric Revenue Bonds, Bond Service Account established pursuant to the Resolution in the Electric Revenue Fund.

“Business Day” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to credit or liquidity enhanced Bonds, a day upon which commercial banks in the city in which is located the office of the credit or liquidity enhancer at which demands for payment under the credit document with respect to the credit or liquidity enhancement are to be presented are authorized to be closed.

“Capital Appreciation Bonds” means any Bonds the interest on which is compounded and not scheduled to be paid until maturity or on prior redemption.

“Certificate,” “Statement,” “Request,” “Requisition” and **“Order”** of the City means, respectively, a written certificate, statement, request, requisition or order signed by the Treasurer or any other Person authorized by the City Council to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Resolution, each such instrument will include the statements provided for in the Resolution.

“Charter” means the Charter of the City, as it may be amended from time to time.

“City” means the City of Riverside, California.

“City Clerk” means the City Clerk of the City.

“City Council” or **“Council”** means the City Council of the City.

“Construction Costs” means the cost of acquiring, constructing, reconstructing, replacing, extending and improving the Electric System and any facilities related thereto.

“Credit Facility” means a letter of credit, liquidity facility or other credit facility issued by a financial institution or other form of credit enhancement, including, but not limited to, municipal bond insurance and guarantees, delivered to the Treasurer or the Fiscal Agent for a Series or portion of a Series of Bonds, which provides for payment, in accordance with the terms of such Credit Facility, of principal or Accreted Value, premium and/or interest of such Series or portion of a Series of Bonds and/or the purchase price of such Series or portion of a Series of Bonds. A Credit Facility may be comprised of two or more credit facilities issued by two or more financial institutions.

“Current Interest Bonds” means the Bonds of any Series, other than Capital Appreciation Bonds, which pay interest at least annually to the Owners thereof excluding the first payment of interest thereon.

“Designated Investments” means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series. **“Designated Investments”** means, with respect to the 2004 Bonds, investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation, the long-

term debt or claims paying ability of the guarantor of which, or, in the case of a monoline financial guaranty insurance company, the claims paying ability of which, at the time of execution of such investment agreement is rated in at least the second highest Rating Category by a Rating Agency, subject to such further or other parameters as may be specified in the Closing Certificate of the City.

“Electric Revenue Fund” means the revenue fund pertaining to the Electric System into which all Gross Operating Revenues are deposited.

“Electric System” means the electric public utility system of the City and will include all works and rights owned, controlled or operated by the City, within or without the City, for supplying the City and its inhabitants with electric energy, including all facilities related thereto and all additions, extensions and improvements thereof.

“Excluded Principal Payment” means each payment of principal of Bonds or Parity Debt which the City designates (in the Supplemental Resolution or other document delivered on a date not later than the date of issuance of such Bonds or Parity Debt) to be an Excluded Principal Payment. No such determination will affect the security for such Bonds or Parity Debt or the obligation of the City to pay such payments from Net Operating Revenues or from the applicable reserve account, if any.

“Federal Securities” means direct obligations of, or obligations the timely payment of which are unconditionally guaranteed by, the United States of America or securities or receipts evidencing direct ownership interests in the foregoing obligations or specific portions (such as principal or interest) of the foregoing obligations which are held in safekeeping by a custodian on behalf of the owners of such receipts.

“Final Compounded Amount” means the Accreted Value of any Capital Appreciation Bond on its maturity date.

“Fiscal Agent” means with respect to any Series of Bonds, the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series and which may be the Treasurer.

“Fiscal Year” means the year period beginning on July 1st and ending on the next following June 30th.

“Gross Operating Revenues” means all revenues from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction.

“Initial Amount” means the principal amount of a Capital Appreciation Bond on the date of issuance and delivery to the original purchaser thereof.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 65 Broadway, 16th Floor, New York, New York 10006; Moody’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor’s “Called Bond Record,” 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the City may designate in a Request of the City delivered to any Fiscal Agent.

“Interest Account” means the sub-account by that name established pursuant to the Resolution in the Bond Service Account.

“Law” means collectively the City Charter, Ordinance No. 5001 of the City Council and the Resolution.

“Mandatory Sinking Account Payment” means, with respect to Bonds of any Series and maturity, the amount required by the Resolution to be deposited by the Treasurer in the Principal Account for the payment of Term Bonds of such Series and maturity.

“Maximum Annual Debt Service” means, as of any date of calculation, the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purpose of computing Maximum Annual Debt Service:

(a) Excluded Principal Payments will be excluded from such calculation and Assumed Debt Service will be included in such calculation;

(b) if the Parity Debt or Bonds are Variable Rate Indebtedness and (i) are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues subordinate to the lien of the Parity Debt or Bonds or (ii) are not secured by any Credit Facility, the interest rate on such Parity Debt or Bonds for periods when the actual rate cannot yet be determined will be assumed to be equal to an interest rate calculated by multiplying 1.20 times the interest rate on the Parity Debt or Bonds on the date of calculation or, if such Parity Debt or Bonds are not currently Outstanding, 1.20 times the interest rate that such Parity Debt or Bonds would bear if they were Outstanding on such date, as certified by a certificate of a financial advisor or investment banker delivered to the City;

(c) if the Parity Debt or Bonds are Variable Rate Indebtedness and are secured pursuant to a Credit Facility which, if drawn upon, could create a repayment obligation which has a lien on Net Operating Revenues on a parity with the lien of the Parity Debt or Bonds, the interest rate on such Parity Debt or Bonds for periods when the actual interest rate cannot yet be determined will be assumed to be equal to the greater of: (i) the then current interest rate on the Parity Debt or Bonds and (ii) the BMA Municipal Bond Index;

(d) principal and interest payments on Bonds and Parity Debt will be excluded to the extent such payments are to be paid from amounts on deposit as of the date of calculation with the Treasurer, any Fiscal Agent or any other fiduciary in an escrow irrevocably dedicated therefor and to the extent that such interest payments are to be paid from the proceeds of Parity Debt or Bonds held by the Treasurer, the Fiscal Agent or any other fiduciary as capitalized interest specifically to pay such interest; and

(e) in determining the principal amount due in each Fiscal Year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Bonds and Parity Debt, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Bonds on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value will be deemed a principal payment and interest that is compounded and paid as Accreted Value will be deemed due on the scheduled redemption or payment date.

“M&O Account” means the Electric System Maintenance and Operation Account established pursuant to the Resolution in the Electric Revenue Fund.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City Council (other than Standard & Poor’s).

“Municipal Obligations” means municipal obligations, rated in the highest Rating Category by each of the Rating Agencies, meeting the following conditions:

(a) the municipal obligations are not to be redeemable prior to maturity, or the trustee with respect to such obligations has been given irrevocable instructions concerning their calling and redemption;

(b) the municipal obligations are secured by Federal Securities, which Federal Securities, except for provisions relating to surplus moneys not required for the payment of the municipal obligations and the substitution of such Federal Securities for other Federal Securities satisfying all criteria for Federal Securities, may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on the Federal Securities (plus any cash in the escrow fund) are sufficient, without reinvestment, to meet the liabilities of the municipal obligations; and

(d) the Federal Securities serving as security for the municipal obligations are held by an escrow agent or trustee.

“Net Operating Revenues” means Gross Operating Revenues, less Operating and Maintenance Expenses, plus, for purposes of determining compliance with certain provisions of the Resolution, the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds.

“Operating and Maintenance Expenses” means those expenses of operating and maintenance of the Electric System and includes any necessary contribution to retirement of Electric System employees.

“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Resolution) all Bonds theretofore, or thereupon being, authenticated and delivered by the Fiscal Agent for that Series under the Resolution except (1) Bonds theretofore cancelled by the Fiscal Agent for that Series or surrendered to the Fiscal Agent for that Series for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Resolution, including Bonds (or portions of Bonds) referred to in the Resolution; (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Fiscal Agent for that Series pursuant to the Resolution; and (4) Bonds no longer Outstanding under the Resolution as provided in the Supplemental Resolution pursuant to which such Bonds were issued.

“Owner” or **“Bondholder”** or **“Bondowner,”** whenever used with respect to a Bond, means the Person in whose name such Bond is registered.

“Paired Obligations” means any one or more Series (or portion thereof) of Bonds or Parity Debt, designated as Paired Obligations in the Supplemental Resolution or other document authorizing the issuance or incurrence thereof, that are simultaneously issued or incurred (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts, and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of the City for the term of such Bonds or Parity Debt.

“Parity Debt” means (1) any indebtedness or other obligation of the City, designated by the City on the date of issuance or incurrence as “Parity Debt,” or (2) any obligations of the City for deferred purchase price, in each case having an equal lien and charge upon the Net Operating Revenues and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Principal Account” means the sub-account by that name established pursuant to the Resolution in the Bond Service Account.

“Rating Agencies” means either or both of Moody’s and Standard & Poor’s and/or such other securities rating agencies providing a rating with respect to a Series of Bonds.

“Rating Category” means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Redemption Account” means the account by that name established pursuant to the Resolution in the Electric Revenue Fund.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Resolution.

“Refunding Bonds” means all Bonds whether issued in one or more Series, authorized pursuant to the Resolution, to the extent the proceeds thereof are used or allocated to pay or to provide for the payment of Bonds or Parity Debt.

“Renewal and Replacement Account” means the Electric Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution.

“Resolution” or **“the Resolution”** means Resolution No. 17662 adopted by the City Council on January 8, 1991, as amended, modified or supplemented from time to time by any Supplemental Resolution.

“Securities Depositories” means the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-

(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or, in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories as the City may designate in a Request of the City delivered to any Fiscal Agent.

“Serial Bonds” means the Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

“Series”, whenever used with respect to Bonds, means all of the Bonds designated as being of the same Series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Resolution.

“Standard & Poor’s” means Standard & Poor’s Corporation, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City (other than Moody’s).

“State” means the State of California.

“Supplemental Resolution” means any resolution duly executed and delivered, supplementing, modifying or amending the Resolution in accordance with the Resolution.

“Surplus Account” means the Electric Revenue Bonds, Surplus Account established pursuant to the Resolution in the Electric Revenue Fund.

“Term Bonds” means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Treasurer” means the Treasurer of the City who may also be a Fiscal Agent for a Series of Bonds if so designated in the Supplemental Resolution authorizing the issuance of such Series.

“Variable Rate Indebtedness” means any indebtedness or obligation, other than Paired Obligations, the interest rate on, or amount of, which is not fixed at the time of incurrence of such indebtedness or obligation, and has not at some subsequent date been fixed, at a single numerical rate for the entire remaining term of the indebtedness or obligation.

Revenues; Funds and Accounts

Pledge of Revenues. The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and will be a charge upon and will be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City pledges, places a charge upon and assigns all Net Operating Revenues to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes

and on the terms and conditions set forth in the Resolution, and the Net Operating Revenues constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt. There are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

Out of Gross Operating Revenues there will be applied as set forth in the Resolution all sums required for the payment of the Operating and Maintenance Expenses and, thereafter, the principal of (including any premium thereon) and interest on the Bonds and all Parity Debt, together with any sinking fund payments of the Bonds and Parity Debt and any reserve fund and excess earnings or rebate requirements with respect thereto. All remaining Gross Operating Revenues, after making the foregoing allocations, will be surplus and may be used for any lawful purpose. The pledge of Net Operating Revenues made in the Resolution will be irrevocable until there are no longer Bonds Outstanding.

Establishment of Funds and Accounts. There are created pursuant to the Resolution, and the Treasurer will maintain in accordance with the terms of the Resolution, within the Electric Revenue Fund, the following accounts:

- (a) Electric System Maintenance and Operation Account (sometimes called "M & O Account");
- (b) Electric Revenue Bonds, Bond Service Account (sometimes called "Bond Service Account"), and within such Account, two subaccounts designated as the Interest Account and the Principal Account;
- (c) Electric Revenue Bonds, Mandatory Sinking Account (sometimes called "Mandatory Sinking Account");
- (d) Electric Revenue Bonds, Renewal and Replacement Account (sometimes called "Renewal and Replacement Account"); and
- (e) Electric Revenue Bonds, Surplus Account (sometimes called "Surplus Account").

All funds, accounts and sub-accounts established or continued under the Resolution or by any Supplemental Resolution will be held by the Treasurer or a Fiscal Agent and will be accounted for separate and apart from all other accounts and moneys of the Treasurer or such Fiscal Agent until all Bonds have been paid in full or discharged in accordance with the Resolution and any Supplemental Resolution.

Allocation of Revenues. All Gross Operating Revenues will be deposited with the Treasurer and placed in the Electric Revenue Fund. The Treasurer will transfer the Gross Operating Revenues from the Electric Revenue Fund to the funds and accounts and will set aside such money in the amounts and in the order of priority described below.

So long as any Bonds are Outstanding, the Treasurer will transfer and apply Gross Operating Revenues from and within the Electric Revenue Fund to the payment of Operating and Maintenance Expenses, and thereafter to the Bond Service Account, any debt service account created or established to provide for the payment of Parity Debt, any reserve account and excess earnings or rebate account established under any Supplemental Resolution or for any Parity Debt, the Renewal and Replacement

Account and the Surplus Account and will set aside such moneys in such funds in the following amounts, in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund resulting from lack of Gross Operating Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority.

(1) *Operating and Maintenance Expenses.* As soon as practicable in each month, the Treasurer will provide for the payment of the Operating and Maintenance Expenses for that month, prior to the payment or provision for payment of the interest on and the principal of the Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor.

(2) *Interest Account.* The Treasurer shall set aside in the Interest Account as soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such fund, (b) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of the City for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, and (c) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Interest Account for any month may be reduced by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month shall be increased by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued hereunder and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates). If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari-passu with the payments required to be placed in the Interest Account; and with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of the City for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations.

(3) *Principal Account.* The Treasurer will deposit in the Principal Account as soon as practicable in each month an amount equal to at least (a) one-sixth of the aggregate semi-

annual amount of Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Bonds of all Series having annual maturity dates or annual Mandatory Sinking Account Payments due within the next twelve months; provided that if the City Council irrevocably determines by resolution that any principal payments on the Bonds of any Series will be refunded on or prior to their respective due dates or paid from amounts on deposit in a reserve fund established and maintained for Bonds of that Series, no amounts need be set aside towards such principal to be so refunded or paid. If, during the twelve-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding a Mandatory Sinking Account Payment date, the Treasurer has purchased Term Bonds of Series and maturity subject to such Mandatory Sinking Account Payment with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the City has deposited Term Bonds of such Series and maturity with the Fiscal Agent for such Series for cancellation, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Treasurer or the Fiscal Agent for such Series from the Redemption Fund, such Term Bonds so purchased or deposited or redeemed will be applied, to the extent of the full principal amount thereof, to reduce amounts required to be deposited in the Principal Account. All Term Bonds purchased from the Principal Account or deposited by the City with the Fiscal Agent for such Series will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed by the Treasurer or the Fiscal Agent for such Series from amounts in the Redemption Fund will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the City. No deposit need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the Bond Obligation of all Bonds issued under the Resolution and then Outstanding and maturing by their terms or subject to mandatory redemption within the next twelve months. If the City issues or incurs any Parity Debt, the payments required to be placed in any debt service fund or sinking fund to pay the principal of, or mandatory sinking fund payments with respect to, such Parity Debt will rank and be made *pari passu* with the payments required to be placed in the Principal Account.

(4) *Bond Reserve Accounts.* The Treasurer will deposit as soon as practicable in each month in any reserve account established under a Supplemental Resolution for a Series of Bonds and in any reserve account established for any Parity Debt, upon the occurrence of any deficiency therein, one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such reserve account and the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance in such reserve account is at least equal to the amount required pursuant to the Supplemental Resolution or other document creating such reserve account.

(5) *Excess Earnings Account.* The Treasurer will deposit in any excess earnings or rebate account established pursuant to a Supplemental Resolution for a Series of Bonds such amounts at such times as will be required pursuant to the Supplemental Resolution or other document creating such account.

(6) *Renewal and Replacement Account.* The Treasurer will set aside in the Renewal and Replacement Account as soon as practicable in each month such amount, if any, as will be required by prior action of the City Council. All amounts in the Renewal and Replacement

Account will be applied to acquisition and construction of renewals and replacements to the Electric System to the extent provision therefore has not been made from other sources.

Any amounts remaining in the Electric Revenue Fund after the foregoing transfers described in paragraphs 1, 2, 3, 4, 5 and 6 above, except as otherwise provided in a Supplemental Resolution, will be transferred to the Surplus Account and applied as set forth in the Resolution.

Application of Funds and Accounts.

(A) *Interest Account.* Amounts in the Interest Account will be used and withdrawn by the Treasurer solely for the purpose of paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity) and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of interest payments on any Bonds made by such providers.

(B) *Principal Account.*

(1) All amounts in the Principal Account will be used and withdrawn by the Treasurer solely for the purposes of paying the Bond Obligation of the Bonds when due and payable at maturity or upon redemption and making payments to providers of any Credit Facility for any Bonds with respect to reimbursement to such providers of payments of Bonds made by such providers.

(2) Notwithstanding paragraph (1) above, the Treasurer may apply moneys in the Principal Account to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (i) within the next six months in the case of Bonds subject to semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments or (ii) within the next twelve months in the case of Bonds subject to annual maturity dates or annual Mandatory Sinking Account Payments (but only to the extent of amounts deposited in the Principal Account in respect of such Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this paragraph will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Establishment, Funding and Application of Redemption Account. The Treasurer will establish, maintain and hold in trust a special account within the Electric Revenue Fund designated as the "Redemption Account." All moneys deposited with the Treasurer for the purpose of optionally redeeming Bonds will, unless otherwise directed by the City, be deposited in the Redemption Account. All amounts deposited in the Redemption Account will be used and withdrawn by the Treasurer solely for the purpose of redeeming Bonds of any Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Resolution pursuant to which such Series of Bonds was created; provided that, at any time prior to the Fiscal Agent for such Series giving notice of redemption, the Treasurer will, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from amounts in the Redemption Account will be allocated to Mandatory Sinking

Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts held by the Treasurer or any Fiscal Agent and established pursuant to the Resolution will be invested solely in Authorized Investments maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Treasurer or such Fiscal Agent.

Unless otherwise provided in a Supplemental Resolution with respect to any fund or account created pursuant to that Supplemental Resolution, all interest, profits and other income received from the investment of moneys in any fund or account will be transferred to the Electric Revenue Fund when received. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Authorized Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Authorized Investment will be credited to the fund or account from which such accrued interest was paid.

The Treasurer and any Fiscal Agent may commingle any of the accounts established pursuant to the Resolution into a separate account or accounts for investment purposes only, provided that all accounts or sub-accounts held by the Treasurer or any Fiscal Agent under the Resolution will be accounted for separately as required by the Resolution. The Treasurer or any Fiscal Agent may sell at the best price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the account to which such Authorized Investment is credited.

The Treasurer and each Fiscal Agent will keep proper books of record and accounts containing complete and correct entries of all transactions relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records will specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and will set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

Covenants

Pursuant to the Resolution, the City has covenanted as follows:

Punctual Payment. The City covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond issued under the Resolution, together with the premium thereon, if any, on the date, at the place and in the manner mentioned in the Bonds in accordance with the Resolution, and that the payments into the Bond Service Account and any reserve account will be made, all in strict conformity with the terms of said Bonds and of the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions and of the Bonds issued under the Resolution, and that time of such payment and performance is of the essence of the City's contract with the Owners of the Bonds.

Discharge Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City will pay from the Electric Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Electric System which, if unpaid,

may become a lien or charge upon the revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City will also pay from the Electric Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Electric System or upon any part thereof or upon any of the revenues therefrom.

Commence Acquisition and Construction. As soon as funds are available therefor, the City will commence the accomplishment of the purposes for which each Series of Bonds are issued and will continue the same to completion with all practical dispatch and in an economical manner.

Operate Electric System in Efficient and Economical Manner. The City covenants and agrees to operate the Electric System in an efficient and economical manner and to operate, maintain and preserve the Electric System in good repair and working order.

Against Sale; Eminent Domain. The City covenants that the Electric System will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Electric Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption thereof, of the Bonds and any Parity Debt, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor will any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Electric System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt or which otherwise would impair the rights of the Owners with respect to the Net Operating Revenues or the operation of the Electric System. If any substantial part of the Electric System is sold, the payment therefor will, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Electric System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Electric System by the lawful exercise of eminent domain or sale under threat thereof, if and to the extent that such right can be exercised against such property of the City, will either be used for the acquisition and/or construction of improvements and extensions of the Electric System or will be placed in the Bond Service Account or the Redemption Account and will be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution.

Insurance. The City covenants that it will at all times maintain with responsible insurers, to the extent available from responsible insurers at reasonable rates, or through a program of self-insurance (or a combination thereof) all such insurance on the Electric System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Electric System shall be damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the Electric System will be used for repairing or rebuilding the damaged or destroyed Electric System, and to the extent not so applied, will be applied to the retirement of any Outstanding Bonds.

The City will also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for worker's

compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City and the Owners.

Records and Accounts. The City will keep proper books of records and accounts of the Electric System separate from all other records and accounts in which complete and correct entries will be made of all transactions relating to the Electric System. Said books will at all times be subject to the inspection of the Owners of not less than 10% of the Outstanding Bonds or their representatives authorized in writing.

No Free Service. The City covenants except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, that no electricity or other service from the Electric System may be furnished or rendered free to any public agency (such term to include the United States of America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. No building or other real property of the Electric System will be furnished free to any such public agency or any private Person or corporation. The City will maintain and enforce valid regulations for the payment of bills for electric service. Such regulations will at all times during such period provide that the City will, to the extent permitted by law, discontinue electric service to any user whose electric bill has not been paid within the time fixed by said regulations.

Rates and Charges. The City will prescribe, revise and collect such rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which, after making allowances for contingencies and error in estimates, will be at least sufficient to pay the following amounts in the order set forth:

- (a) Operating and Maintenance Expenses;
- (b) The interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) as they become due and payable;
- (c) All other payments required for compliance with the Resolution or any Supplemental Resolutions; and
- (d) All other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues.

The charges will be so fixed that the Net Operating Revenues will be at least 1.10 times the amounts payable under (b) above plus 1.0 times the amounts payable under (c) and (d) above.

Notwithstanding the foregoing, nothing in the Resolution will limit the ability of the City to increase the coverage required to be maintained for the amounts payable under (b) above to a level higher than 1.10, as and to the extent the City in its sole discretion will determine pursuant to a resolution of the City Council.

No Priority for Additional Bonds. No additional bonds, notes or other evidences of indebtedness payable out of the Net Operating Revenues will be issued having any priority in payment of principal or interest out of the Electric Revenue Fund or out of any Net Operating Revenues payable into such Fund over the Outstanding Bonds.

Limits on Additional Debt. Except for Refunding Bonds or Parity Debt to the extent incurred to pay or discharge Outstanding Bonds or Parity Debt, no additional Bonds or Parity Debt will be issued or incurred unless:

First: The City is not in default under the terms of the Resolution; and

Second: Either (i) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year, or for any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City, or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a Certificate of the City, plus, in either case, at the option of the City, any or all of the items hereinafter in this covenant designated (a) and (b), shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds to be Outstanding and all Parity Debt to be Outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt.

The items any or all of which may be added to such Net Operating Revenues for the purpose of meeting the requirement set forth in this covenant are the following:

(a) An allowance for any increase in Net Operating Revenues (including, without limitation, a reduction in Operating and Maintenance Expenses) which may arise from any additions to and extensions and improvements of the Electric System to be made or acquired with the proceeds of such additional Bonds or Parity Debt or with the proceeds of bonds previously issued, and also for net revenues from any such additions, extensions or improvements which have been made or acquired with moneys from any source but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, were not in service, all in an amount equal to the estimated additional average annual net revenues (or estimated average annual reduction in Operating and Maintenance Expenses) to be derived from such additions, extensions and improvements for the first 36-month period in which each addition, extension or improvement is respectively to be in operation, all as shown by the Certificate of the City.

(b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12 consecutive month period within the last completed 18-month period, as shown by the Certificate of the City.

Third: on the date of delivery of and payment for such additional Bonds or Parity Debt, the amount in any reserve fund for any Bonds or Parity Debt heretofore established will be not less than an amount required to be maintained in such fund pursuant to the Supplemental Resolution or other document creating such fund.

Nothing in the Resolution will limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements

for the Bonds and all Parity Debt and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside hereunder from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents.

The Fiscal Agent

Appointment; Duties of Fiscal Agent.

(A) The City may appoint a Fiscal Agent, who may be the Treasurer, for a Series of Bonds in the Supplemental Resolution pursuant to which such Bonds are issued. Each Fiscal Agent will act as the agent of the City and will perform such duties and only such duties as are specifically set forth in the Resolution or the Supplemental Resolution pursuant to which it was appointed and no implied covenants will be read into the Resolution or such Supplemental Resolution against the Fiscal Agent. Each Fiscal Agent will exercise such of the rights and powers vested in it by the Resolution or the Supplemental Resolution pursuant to which it was appointed.

(B) The City may remove any Fiscal Agent at any time with or without cause and will remove any Fiscal Agent if at any time such Fiscal Agent shall cease to be eligible as described in paragraph (E) below, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of such Fiscal Agent or its property shall be appointed, or any public officer shall take control or charge of such Fiscal Agent or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to such Fiscal Agent, and thereupon will appoint a successor Fiscal Agent by an instrument in writing.

(C) Each Fiscal Agent may at any time resign by giving 90 days prior written notice of such resignation to the City and by giving the Owners notice of such resignation by mail at the addresses shown on the registration books maintained by such Fiscal Agent. Upon receiving such notice of resignation, the City will promptly appoint a successor Fiscal Agent by an instrument in writing.

(D) Any removal or resignation of a Fiscal Agent and appointment of a successor Fiscal Agent will become effective only upon acceptance of appointment by the successor Fiscal Agent. If no successor Fiscal Agent shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Fiscal Agent may petition any court of competent jurisdiction for the appointment of a successor Fiscal Agent, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Fiscal Agent. Any successor Fiscal Agent appointed under the Resolution will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Fiscal Agent a written acceptance thereof, and thereupon such successor Fiscal Agent, without any further act, deed or conveyance, will become vested with all the rights, powers, duties and obligations of such predecessor Fiscal Agent, with like effect as if originally named Fiscal Agent in the Resolution. Upon request of the successor Fiscal Agent, the City and the predecessor Fiscal Agent will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Fiscal Agent all such rights, powers, duties and obligations.

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent will be either the Treasurer or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company will have a combined capital and surplus of at least one hundred

million dollars (\$100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of the Resolution the combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor will be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

Upon merger, consolidation, or reorganization of a Fiscal Agent, the City will appoint a new Fiscal Agent, which may be the corporation resulting from such reorganization. In case at any time a Fiscal Agent will cease to be eligible in accordance with the provisions described in paragraph (E), such Fiscal Agent will resign immediately in the manner and with the effect specified in the Resolution.

If, by reason of the judgment of any court, a Fiscal Agent for a Series of Bonds or any successor Fiscal Agent is rendered unable to perform its duties under the Resolution, and if no successor Fiscal Agent be then appointed, all such duties and all of the rights and powers of such Fiscal Agent will be assumed by and vest in the Treasurer in trust for the benefit of the Bondholders of such Series.

Liability of Fiscal Agent.

(A) The recitals of facts in the Resolution, in the Supplemental Resolution pursuant to which a Fiscal Agent is appointed and in the Bonds of such Series contained will be taken as statements of the City, and the Fiscal Agent for such Series assumes no responsibility for the correctness of the same (other than the certificate of authentication of such Fiscal Agent on each Bond), and makes no representations as to the validity or sufficiency of the Resolution or of the Bonds, as to the sufficiency of the Net Operating Revenues or the priority of the lien of the Resolution thereon, or as to the financial or technical feasibility of any project and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Resolution or in the Bonds assigned to or imposed upon it. Each Fiscal Agent will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. A Fiscal Agent will not be liable in connection with the performance of its duties under the Resolution, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Resolution. A Fiscal Agent and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds of a Series for which it has been appointed Fiscal Agent and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if such Fiscal Agent was not the Fiscal Agent for such Series of Bonds. Each Fiscal Agent may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

(B) A Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that such Fiscal Agent was negligent in ascertaining the pertinent facts. A Fiscal Agent may execute any of the rights or powers of the Resolution and perform the duties required of it under the Resolution by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Resolution, but such Fiscal Agent will be answerable for the negligence or misconduct of any such attorney-in-fact, agent, or receiver selected by it; provided that such Fiscal Agent will not be answerable for the negligence or misconduct of any attorney-in-law, agent or receiver selected by it with due care.

(C) No provision of the Resolution will require a Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the

Resolution or under the Supplemental Resolution pursuant to which it was appointed, or in the exercise of its rights or powers.

(D) A Fiscal Agent will not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Resolution or in the Supplemental Resolution pursuant to which it was appointed, other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Resolution and to file with such Fiscal Agent when due, such reports and certifications as City is required to file with each Fiscal Agent under the Resolution.

(E) No permissive power, right or remedy (if any) conferred upon a Fiscal Agent under the Resolution will be construed to impose a duty to exercise such power, right or remedy.

(F) A Fiscal Agent will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but a Fiscal Agent, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if a Fiscal Agent shall determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

(G) Whether or not therein expressly so provided, every provision of the Resolution relating to the conduct or affecting the liability of or affording protection to any Fiscal Agent will be subject to the provisions of the Resolution.

Amendments

Amendments Permitted.

(A) (1) The Resolution and the rights and obligations of the City, the Owners of the Bonds and any Fiscal Agent may be modified or amended from time to time and at any time by filing with each Fiscal Agent (or if such modification or amendment is only applicable to a Series of Bonds, to such Fiscal Agent) a Supplemental Resolution, adopted by the City Council with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Resolution is only applicable to a Series of Bonds, the Bonds of that Series) then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Resolution.

(2) No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of Bond Obligation thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Operating Revenues and other assets pledged under the Resolution prior to or on a parity with the lien created by the Resolution, or deprive the Owners of the Bonds of the lien created by the Resolution on such Net Operating Revenues and other assets (in each case, except as expressly provided in the Resolution), without the consent of the Owners of all of the Bonds then Outstanding, or (c) modify any rights or duties of the Fiscal Agent without its consent.

It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Resolution, but it will be sufficient if such consent shall approve the substance thereof. Promptly after the adoption by the City Council of any Supplemental Resolution pursuant to the Resolution, the Fiscal Agent for each Series of Bonds that may be affected by any such modification or amendment will mail a notice provided by the City, setting forth in general terms the substance of such Supplemental Resolution to the Owners of the Bonds at the addresses shown on the registration books of the Fiscal Agent. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Resolution.

(B) The Resolution and the rights and obligations of the City, of each Fiscal Agent and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Resolution, which the City Council may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Resolution thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Resolution reserved to or conferred upon the City, in each case which will not materially and adversely affect the interests of the Owners of any of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Resolution, or in regard to matters or questions arising under the Resolution, as the City Council may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of any of the Bonds;

(3) to modify, amend or supplement the Resolution in such manner as to permit the qualification of the Resolution under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of any of the Bonds;

(4) to provide for the issuance of a Series of Bonds with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Resolution;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of any of the Bonds;

(6) if the City has covenanted in a Supplemental Resolution to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion; and

(7) for any other purpose that does not materially and adversely affect the interests of the Owners of any of the Bonds.

Defeasance

Discharge of Resolution. Except as may be provided in any Supplemental Resolution creating a Series of Bonds, Bonds of any Series may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on all Bonds Outstanding of the Series, as and when the same become due and payable;

(b) by depositing with the Treasurer, the Fiscal Agent for such Series, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount to pay or redeem all Bonds Outstanding of the Series; or

(c) by delivering to the Fiscal Agent for such Series, for cancellation by it, all Bonds then Outstanding of the Series.

If the City shall pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable to any provider of a Credit Facility under the Resolution by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with each Fiscal Agent, signifying the intention of the City to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and the pledge of Net Operating Revenues and other assets made under the Resolution and all covenants, agreements and other obligations of the City under the Resolution will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Treasurer will cause an accounting for such period or periods as the City may request to be prepared and filed with the City and will cause to be executed and delivered to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction.

Discharge of Liability on Bonds. Upon the deposit with the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, irrevocable notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to such Fiscal Agent shall have been made for the giving of such notice, then all liability of the City in respect of such Bond will cease, terminate and be completely discharged; provided that the Owner thereof will be entitled to the payment of the principal of and premium, if any, and interest on such Bond, and the City will remain liable for such payment, but only out of such money or securities deposited as aforesaid for their payment, subject, however, to the provisions of the Resolution and the continuing duties of the Fiscal Agent for such Series under the Resolution.

The City may at any time surrender to the Fiscal Agent for a Series for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Treasurer. Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust by the Treasurer or the Fiscal Agent for a Series, an escrow agent or other fiduciary, money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Treasurer in the accounts and sub-accounts established pursuant to the Resolution and will be one or more of the following:

(a) lawful money of the United States of America in an amount equal to the Bond Obligation of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice, the amount to be

deposited or held will be the Bond Obligation or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable Federal Securities or Municipal Obligations, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Fiscal Agent of such Series for which payment is being made (upon which opinion such Fiscal Agent may conclusively rely), provide money sufficient to pay the Bond Obligation or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such Bond Obligation or Redemption Price And interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Fiscal Agent for such Series shall have been made for the giving of such notice;

provided, in each case, that the Fiscal Agent for such Series shall have been irrevocably instructed (by the terms of the Resolution or by Request of the City) to apply such money to the payment of such Bond Obligation or Redemption Price and interest with respect to such Bonds.

Events of Default; Remedies

Events of Defaults. The following events will be an Event of Default under the Resolution:

(a) Default by the City in the due and punctual payment of the principal of or premium, if any, on any Bond (whether at maturity, by acceleration, call for redemption or otherwise);

(b) Default by the City in the due and punctual payment of the interest on any Bond;

(c) Failure of the City to observe and perform any of its other covenants, conditions or agreements under the Resolution or in the Bonds for a period of 90 days after written notice from the Owners of 25% in aggregate amount of Bond Obligation then Outstanding, specifying such failure and requesting that it be remedied, or in the case of any such default that cannot with due diligence be cured within such 90 day period, failure of the City to proceed promptly to cure the same and thereafter prosecute the curing of such default with due diligence;

(d) Destruction or damage to any substantial part of the Electric System to the extent of impairing its efficient operation or adversely affecting to a substantial degree the Net Operating Revenues and failure for any reason promptly to repair, replace or reconstruct the same (whether such failure promptly to repair, replace or reconstruct the same be due to the impracticability of such repair, replacement or reconstruction, the lack of funds therefor or for any other reason);

(e) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official for the City, the Electric System or any substantial part of the City's property, or to the taking possession by any such official of the Electric System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

(f) The entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted,

or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the Electric System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City or its affairs; or

(g) Failure of the City within 90 days after the commencement of any proceedings against it under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, to have such proceedings dismissed or stayed.

The provisions described in paragraphs (c) and (d) above are subject to the limitation that if by reason of force majeure the City is unable in whole or in part to observe and perform any of its covenants, conditions or agreements under the Resolution, the City will not be deemed in default during the continuance of such disability. The term "force majeure" as used in the Resolution will include without limitation acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of the State of California or any of their departments, agencies, political subdivisions or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the City. The City will, however, remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances will be entirely within the discretion of the City, and the City will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the City unfavorable to it.

Bondholders' Committee. If an Event of Default shall have occurred and be continuing, the Owners of 25% in aggregate amount of Bond Obligation may call a meeting of the Bondholders for the purpose of electing a bondholders' committee (a "Bondholders' Committee"). At such meeting the Owners of not less than a majority in aggregate amount of Bond Obligation must be present in person or by proxy in order to constitute a quorum for the transaction of business, less than a quorum, however, having power to adjourn from time to time without any other notice than the announcement thereof at the meeting. A quorum being present at such meeting, the Owners present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be Owners, to the Bondholders' Committee. The Owners present in person or by proxy at such meeting, or at any adjourned meeting thereof (a) will prescribe the manner in which the successors of the persons elected to the Bondholders' Committee will be elected or appointed, (b) may prescribe rules and regulations governing the exercise by the Bondholders' Committee of the power conferred upon it in the Resolution, and (c) may provide for the termination of the existence of the Bondholders' Committee. The Bondholders' Committee is to be trustee for the Owners of all Bonds then Outstanding, and are empowered to exercise in the name of the Bondholders' Committee as trustee all the rights and powers conferred in the Resolution on any Owners; provided, however, that whenever any provision of the Resolution requires the consent, approval or concurrence of the Owners of a specified percentage of Bond Obligation, in order to exercise the right or power conferred in the Resolution on the Owners to which such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee will then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, will be filed with the City Clerk.

Acceleration. Upon the occurrence and continuation of certain Events of Default specified in the Resolution, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, declare the entire unpaid principal and Accreted Value of the Bonds due and payable and, thereupon, the entire unpaid principal and Accreted Value of the Bonds will forthwith become due and payable. Upon any such declaration the City will forthwith pay to the Owners of the Bonds the entire unpaid principal and Accreted Value of, premium, if any, and accrued interest on the Bonds, but only from Net Operating Revenues and other moneys specifically pledged for such purpose. If at any time after such a declaration and before the entry of a final judgment or decree in any suit, action or proceeding instituted on account of such default or before the completion of the enforcement of any other remedy under the Resolution, the principal and Accreted Value of all Bonds that have matured or been called for redemption pursuant to any sinking fund provision and all arrears of interest have been paid and any other Events of Default which may have occurred have been remedied, then the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation may, by written notice to the City, rescind or annul such declaration and its consequences. No such rescission or annulment will extend to or affect any subsequent default or impair any right consequent thereon.

Receiver. Upon the occurrence and continuation of an Event of Default for a period of 90 days, the Bondholders' Committee or, if there is none, the Owners of 25% in aggregate amount of Bond Obligation will be entitled to the appointment of a receiver upon application to any court of competent jurisdiction in the State of California. Any receiver so appointed may enter and take possession of the Electric System, operate, maintain and repair the same, to the extent permitted by law impose and prescribe rates, fees and other charges, and receive and apply all Net Operating Revenues thereafter arising therefrom in the same manner as the City itself might do. No bond will be required of such receiver.

Other Remedies; Rights of Bondholders. Upon the occurrence and continuation of an Event of Default the Owners may proceed to protect and enforce their rights by mandamus or other suit, action or proceeding at law or in equity, including an action for specific performance of any agreement contained in the Resolution.

No remedy conferred by the Resolution upon or reserved to the Owners is intended to be exclusive of any other remedy, but each such remedy will be cumulative and will be in addition to any other remedy given to the Bondholders under the Resolution or now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default will impair any such right or power or will be construed to be a waiver of any such default or Event of Default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Resolution by the Owners will extend to or will affect any subsequent default or Event of Default or will impair any rights or remedies consequent thereon.

Unconditional Right to Receive Principal, Accreted Value, Premium and Interest. Nothing in the Resolution will, however, affect or impair the right of any Owner to enforce, by action at law, payment of the principal and Accreted Value of, premium, if any, or interest on any Bond at and after the maturity thereof, or on the date fixed for redemption or upon the same being declared due prior to maturity as provided in the Resolution, or the obligation of the City to pay the principal and Accreted Value of, premium, if any, and interest on each of the Bonds issued under the Resolution to the respective

holders thereof at the time and place, from the source and in the manner expressed in the Resolution and in the Bonds.

Special Insurance Provisions

So long as the payment of principal of and interest on the Insured 2004 Bonds is insured by a municipal bond insurance policy issued simultaneously with the delivery of the 2004 Bonds, the bond insurer shall be deemed to be the sole Owner of the Insured 2004 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the Insured 2004 Bonds are entitled to take under the provisions of the Resolution pertaining to defaults and remedies under the Resolution.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS RELATING TO THE AUCTION RATE SECURITIES

This Appendix D is composed of two sections: (1) Attachment A, which sets forth Exhibit C to the Seventh Supplemental Resolution, and (2) Attachment B, which sets forth the Settlement Procedures contained in the Broker-Dealer Agreement between Deutsche Bank Trust Company Americas, as Auction Agent, and Citigroup Global Markets Inc., as Broker-Dealer.

Attachment A

Section 1.1 Certain Definitions. In addition to the terms defined elsewhere in this Seventh Supplemental Resolution, the following terms shall have the following meanings with respect to the ARS (as defined herein) unless the context otherwise requires:

“All Hold Rate” on any date of determination shall mean the interest rate per annum equal to 55% of the Index on such date rounded to the nearest one thousandth (.001) of 1%; provided that in no event shall the All Hold Rate be more than the Maximum Interest Rate.

“Applicable ARS Rate” shall have the meaning set forth in Section 1.4(b) of this Exhibit C.

“Applicable Number of Business Days” shall mean the greater of (i) two Business Days or (ii) one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

“ARS” shall mean the 2004B Bonds outstanding as Auction Rate Securities.

“Auction” shall mean each periodic implementation of the Auction Procedures.

“Auction Agency Agreement” shall mean the Auction Agency Agreement relating to the ARS between the Fiscal Agent and the Auction Agent and any similar agreement with a successor Auction Agent or successor Fiscal Agent, in each case as from time to time amended or supplemented.

“Auction Agent” shall mean any Person appointed as such pursuant to Section 1.14 of this Exhibit C.

“Auction Agent Fee” shall mean the fee to be paid to the Auction Agent for the services rendered by it under the Auction Agency Agreement and the Broker-Dealer Agreement.

“Auction Date” shall mean the Initial Auction Date and thereafter, in each instance, the Business Day immediately preceding the first day of each Interest Period, other than:

- i. each Interest Period commencing after the ownership of the ARS is no longer maintained in book-entry form by the Securities Depository;
- ii. each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- iii. any Interest Period commencing less than two Business Days after the cure or waiver of a Payment Default.

Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed pursuant to Section 1.17 of this Exhibit C.

“Auction Period” shall mean the Initial Auction Period and thereafter the Interest Period applicable thereto as the same may be changed pursuant to Section 1.17 of this Exhibit C.

“Auction Procedures” shall mean the procedures set forth in Section 1.6 of this Exhibit C.

“Auction Rate” shall mean the rate of interest per annum on any Auction Date that results from the implementation of the Auction Procedures, and determined as described in Section 1.6(c)(ii) of this Exhibit C.

“Auction Rate Securities” shall mean the 2004B Bonds bearing interest at the Auction Rate.

“Authorized Denominations” shall mean \$25,000 and any integral multiple thereof.

“Available ARS” shall have the meaning set forth in Section 1.6(c)(i)(A) of this Exhibit C.

“Bid” shall have the meaning set forth in Section 1.6(a)(i) of this Exhibit C.

“Bidder” shall have the meaning set forth in Section 1.6(a)(i) of this Exhibit C.

“Broker-Dealer” shall mean Citigroup Global Markets Inc. or any other broker or dealer (each as defined in the Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (i) is a Participant (or an affiliate of a Participant), (ii) has a capital surplus of at least \$50,000,000 (iii) has been selected by the City with the approval of the Market Agent (which approval shall not be unreasonably withheld) and (iv) has entered into a Broker-Dealer Agreement that remains effective.

“Broker-Dealer Agreement” shall mean the Broker-Dealer Agreement relating to the ARS between the Auction Agent and the Broker-Dealer and each other agreement between the Auction Agent and a Broker-Dealer pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented.

“Broker-Dealer Fee” shall mean the fee to be paid to the Broker-Dealers for the services rendered by them under the Broker-Dealer Agreement.

“Business Day” as used in this Exhibit C shall mean, for purposes of any Auction, any day other than a Saturday, Sunday, holiday or day on which banks located in the city of New York, New York, or the New York Stock Exchange, the Fiscal Agent or the Auction Agent, are authorized or permitted by law or executive order to close.

“Change of Preference Law” shall mean, with respect to any Holder of ARS, any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the date hereof which (i) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (ii) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any holder of bonds the interest on which is excluded from federal gross income under section 103 of the Code.

“Default Rate” shall mean the interest rate per annum equal to the lesser of (i) 12% and (ii) the Maximum Interest Rate.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

“Existing Holder” shall mean (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder registry at the close of business on the Business Day immediately preceding the Auction Date for such Auction and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of ARS.

“Favorable Opinion” shall mean an opinion of the City’s Bond Counsel, addressed to the City and the Fiscal Agent, to the effect that the action contemplated will not adversely affect the exclusion from gross income of the interest received by the owners of the ARS.

“Holder” as used in this Exhibit C shall mean the beneficial owner of any ARS.

“Hold Order” shall have the meaning set forth in Section 1.6(a)(i) of this Exhibit C.

“Index” shall mean the One Month LIBOR Rate.

“Initial Auction Date” shall mean the last Business Day of the Initial Auction Period.

“Initial Auction Period” shall mean the period commencing on the date of original issuance of the ARS and ending on the next Tuesday at least seven days after such date of original issuance.

“Interest Amount” shall mean the amount of interest distributable in respect of each \$25,000 in principal amount (taken, without rounding, to .0001 of one percent) of ARS for any Interest Period or part thereof, as calculated in accordance with Section 1.10 of this Exhibit C.

“Interest Payment Date” shall mean the Business Day following the last day of each Auction Period, and in all cases on the maturity of the ARS, whether at stated maturity, a Redemption Date, or otherwise.

“Interest Period” shall mean, unless otherwise changed as described in Section 1.17(a) of this Exhibit C, the Initial Auction Period and each successive period of generally seven days thereafter, commencing on a Wednesday (or the day following the last day of the prior Interest Period, if the prior Interest Period does not end on a Tuesday) and ending on a Tuesday (unless the day following such Tuesday is not a Business Day, in which case on the next succeeding day that is followed by a Business Day).

“Market Agent” shall mean the market agent or market agents appointed pursuant to Section 1.13 of this Exhibit C, and its or their successors or assigns.

“Market Agent Agreement” shall mean the Market Agent Agreement relating to the ARS, between the Fiscal Agent and the Market Agent, and any similar agreement with a successor Market Agent, in each case as from time to time amended or supplemented.

“Maximum ARS Rate,” on any date of determination, shall mean the Maximum Interest Rate.

“Maximum Interest Rate” shall mean the lesser of (a) 12% per annum or (b) the maximum rate of interest permitted by the laws of the State of California for the ARS.

“One Month LIBOR Rate” shall mean, as of any date of determination, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

“Order” shall have the meaning set forth in Section 1.6(a) of this Exhibit C.

“Participant” shall mean a member of or participant in, the Securities Depository.

“Payment Default” shall mean failure to make payment (together with any payment made by the 2004B Bond Insurer under the terms of the 2004B Bond Insurance Policy) of interest on and principal of the ARS when due.

“Person” for purposes of this Exhibit C shall mean and includes, unless otherwise specified, an individual, corporation, company, trust, estate, partnership or association.

“Potential Holder” shall mean any Person (including an Existing Holder that is (i) a Broker-Dealer when dealing with the Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer) who may be interested in acquiring ARS (or, in the case of an Existing Holder thereof, an additional principal amount of ARS).

“Record Date” shall mean the Applicable Number of Business Days immediately preceding each Interest Payment Date.

“Redemption Date” when used with respect to any ARS to be redeemed, shall mean the date fixed for such redemption.

“SEC” shall mean the Securities and Exchange Commission.

“Sell Order” shall have the meaning set forth in Section 1.6(a) of this Exhibit C.

“Submission Deadline” shall mean 1:00 p.m., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

“Submitted Bid” shall have the meaning set forth in Section 1.6(c)(i) of this Exhibit C.

“Submitted Hold Order” shall have the meaning set forth in Section 1.6(c)(i) of this Exhibit C.

“Submitted Order” shall have the meaning set forth in Section 1.6(c)(i) of this Exhibit C.

“Submitted Sell Order” shall have the meaning set forth in Section 1.6(c)(i) of this Exhibit C.

“Sufficient Clearing Bids” shall have the meaning set forth in Section 1.6(c)(i)(B) of this Exhibit C.

“Winning Bid Rate” shall have the meaning set forth in Section 1.6(c)(i)(C) of this Exhibit C.

Section 1.2 Description of ARS; Global Form; Securities Depository.

(a) The City's Electric Revenue Bonds, Issue of 2004B shall be issued as ARS.

(b) Except as otherwise provided in this Section 1.2, the ARS, in the form of one or more securities, shall be registered in the name of the Securities Depository, and ownership thereof shall be maintained in book-entry form by the Securities Depository for the account of the Participants thereof. Initially, the ARS shall be registered in the name of Cede & Co., as the nominee of DTC. Except as provided in subsection (c) of this Section 1.2, the ARS may be transferred, in whole but not in part, only to the Securities Depository, or to a successor to DTC selected or approved by the City or to a nominee of such successor Securities Depository.

(i) None of the City, the Fiscal Agent or any of their respective affiliates shall have any responsibility or obligation with respect to:

A. the accuracy of the records of the Securities Depository or any Participant with respect to any beneficial ownership interest in the ARS;

B. the delivery to any Participant, any beneficial owner of the ARS or any other person, other than the Securities Depository, of any notice with respect to the ARS; or

C. the payment to any Participant, any beneficial owner of the ARS or any other person, other than the Securities Depository, of any amount with respect to the principal of or interest on the ARS.

So long as the certificates for the ARS are not issued pursuant to subsection (c) of this Section 1.2, the City and the Fiscal Agent may treat the Securities Depository as, and deem the Securities Depository to be, the absolute owner of the ARS for all purposes whatsoever, including without limitation:

(1) the payment of principal of and interest on the ARS;

(2) giving notices of redemption and other matters with respect to the ARS;

(3) registering transfer with respect to the ARS; and

(4) the selection of ARS for redemption.

(c) If at any time the Market Agent has notified the City that the ARS should not be maintained in book-entry form or the Securities Depository notifies the City that it is unwilling or unable to continue as Securities Depository with respect to the ARS, or if at any time the Securities Depository shall no longer be registered or in good standing under the Exchange Act or other applicable statute or regulation and a successor Securities Depository is not appointed by the City within 90 days after the City receives notice or becomes aware of such condition, as the case may be, then this Section 1.2 shall no longer be applicable and the City shall execute and the Fiscal Agent shall authenticate and deliver certificates representing the ARS as provided below. Certificates for the ARS issued in exchange for a global certificate pursuant to this subsection (c) shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Participants or otherwise,

shall instruct the City and the Fiscal Agent. The Fiscal Agent shall deliver such certificates representing the ARS to the persons in whose names such ARS are so registered on the Business Day immediately preceding the first day of an Interest Period.

Section 1.3 Limitations on Transfer. So long as the ownership of the ARS is maintained in book-entry form by the Securities Depository, an Existing Holder may sell, transfer or otherwise dispose of its beneficial interest in ARS only pursuant to a Bid or Sell Order placed in any Auction or to or through a Broker-Dealer; provided that in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer.

Section 1.4 Interest on ARS.

(a) Interest on the ARS shall accrue during each Interest Period and shall be payable in arrears on each Interest Payment Date.

(b) The rate of interest on the ARS for each Interest Period shall be the Auction Rate; provided that if, on any Auction Date, an Auction is not held for any reason other than as contemplated herein, then the rate of interest for the next succeeding Interest Period shall equal the same rate as in effect on such Auction Date for the next Auction Period, which shall be the same length as the current Interest Period. Notwithstanding the foregoing, if:

(i) the ownership of ARS is no longer maintained in book-entry form by the Securities Depository, the rate of interest on such ARS for any Interest Period commencing after the delivery of certificates representing ARS pursuant to Section 1.2(c) of this Exhibit C shall equal the Maximum ARS Rate on the Business Day immediately preceding the first day of such Interest Period; or

(ii) a Payment Default occurs, Auctions will be suspended and the Applicable ARS Rate (as defined below) for the Interest Period commencing on or after such Payment Default and for each Interest Period thereafter to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured will equal the Default Rate.

The rate per annum at which interest is payable on the ARS for any Interest Period is herein referred to as the "Applicable ARS Rate." Notwithstanding anything herein to the contrary, the Applicable ARS Rate cannot exceed the Maximum Interest Rate.

Section 1.5 Payments. So long as the ARS are registered in the name of the Securities Depository or the nominee thereof, payment of interest (other than at maturity) on, and principal at redemption of, the ARS shall be made to the Securities Depository by wire transfer provided proper wire instructions are received. Each Holder of ARS, by such Holder's purchase of ARS, appoints the Fiscal Agent as its agent in connection with the payment by such Holder of its share, if any, of the amounts payable to the Auction Agent and the Broker-Dealers pursuant to Section 1.8(a) of this Exhibit C.

Section 1.6 Auction Procedures. With respect to the ARS, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Interest Period commencing after the ownership of the ARS is no longer maintained in book-entry form by the Securities Depository; (ii) each Interest Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Interest Period commencing less than two Business Days

after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the following manner:

(a) Orders by Existing Holders and Potential Holders.

(i) Except as provided in clause (C) below, prior to the Submission Deadline on each Auction Date:

A. each Existing Holder of ARS may submit to a Broker-Dealer information as to:

(1) the principal amount of Outstanding ARS, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Interest Period;

(2) the principal amount of Outstanding ARS, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period shall be less than the rate per annum specified by such Existing Holder; and/or

(3) the principal amount of Outstanding ARS, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period; and

B. one or more Broker-Dealers may contact Potential Holders to determine the principal amount of ARS which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Interest Period shall not be less than the rate per annum specified by such Potential Holder.

C. Notwithstanding the foregoing, prior to the Submission Deadline on the Initial Auction Date, (1) each Existing Holder of ARS will be deemed to have submitted to a Broker-Dealer information as to the principal amount of Outstanding ARS held by such Existing Holder and that such Existing Holder offers to hold all of such Outstanding ARS without regard to Auction Rate for the Initial Auction Period, unless, (2) prior to the Submission Deadline, such Existing Holder shall have submitted to a Broker-Dealer the information described in (Y) paragraph (A) (3) above or (Z) paragraph (A)(2) above.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A)(1), (A)(2), (A)(3), (B) or (C) of this paragraph (a) is hereinafter referred to as an "Order" and collectively as "Orders" and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder" and collectively as "Bidders"; an Order containing the information referred to in (x) clause (A)(1) of this paragraph (a) is hereinafter referred to as a "Hold Order" and collectively as "Hold Orders," (y) clause (A)(2) or (B) is hereinafter referred to as a "Bid" and collectively as "Bids" and (z) clause (A)(3) of this paragraph (i) is hereinafter referred to as a "Sell Order" and collectively as "Sell Orders."

(ii) A. Subject to the provisions of Section 1.6(b) of this Exhibit C, a Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARS specified in such Bid if the Auction Rate determined as provided in this Section 1.6 of this Exhibit C shall be less than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARS to be determined as set forth in Section 1.6(d)(i)(D) of this Exhibit C, if the Auction Rate determined as provided in this Section 1.6 shall be equal to the rate specified in such Bid; or

(3) such principal amount or a lesser principal amount of Outstanding ARS to be determined as set forth in Section 1.6(d)(ii)(C) of this Exhibit C if the rate specified shall be higher than the Maximum ARS Rate and Sufficient Clearing Bids have not been made.

B. Subject to the provisions of Section 1.6(b) of this Exhibit C, a Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the principal amount of Outstanding ARS specified in such Sell Order; or

(2) such principal amount or a lesser principal amount of Outstanding ARS as set forth in Section 1.6(d)(ii)(C) of this Exhibit C if Sufficient Clearing Bids have not been made.

C. Subject to the provisions of Section 1.6(b) of this Exhibit C, a Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the principal amount of Outstanding ARS specified in such Bid if the Auction Rate determined as provided in this Section 1.6 of this Exhibit C shall be higher than the rate specified in such Bid; or

(2) such principal amount or a lesser principal amount of Outstanding ARS as set forth in Section 1.6(d)(i)(E) of this Exhibit C if the Auction Rate determined as provided in this Section 1.6 of this Exhibit C shall be equal to the rate specified in such Bid.

(b) Submission by Broker-Dealer to Auction Agent.

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

A. the name of the Bidder placing such Order;

B. the aggregate principal amount of ARS that are the subject of such Order;

C. to the extent that such Bidder is an Existing Holder:

(1) the principal amount of ARS, if any, subject to any Hold Order placed by such Existing Holder;

(2) the principal amount of ARS, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(3) the principal amount of ARS, if any, subject to any Sell Order placed by such Existing Holder; and

D. to the extent such Bidder is a Potential Holder, the rate and amount specified in such Potential Holder's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all Outstanding ARS held by any Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding ARS held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

(iv) None of the City, the Fiscal Agent or the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(v) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding ARS held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

A. all Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of ARS held by such Existing Holder, and if the aggregate principal amount of ARS subject to such Hold Orders exceeds the aggregate principal amount of ARS held by such Existing Holder, the aggregate principal amount of ARS subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Outstanding ARS held by such Existing Holder;

B. (1) any Bid shall be considered valid up to and including the excess of the principal amount of Outstanding ARS held by such Existing Holder over the aggregate principal amount of ARS subject to any Hold Orders referred to in clause (A) of this paragraph (v);

(2) subject to subclause (1) of this clause (B), if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding ARS subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess and the stated amount of ARS subject to each Bid with

the same rate shall be reduced pro rata to cover the stated amount of ARS equal to such excess;

(3) subject to subclauses (1) and (2) of this clause (B), if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(4) in any such event, the aggregate principal amount of Outstanding ARS, if any, subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

C. all Sell Orders shall be considered valid up to and including the excess of the principal amount of Outstanding ARS held by such Existing Holder over the aggregate principal amount of ARS subject to valid Hold Orders referred to in clause (A) of this paragraph (v) and valid Bids referred to in clause (B) of this paragraph (v).

(vi) If more than one Bid for ARS is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of ARS not equal to an Authorized Denomination therefor shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of ARS not equal to an Authorized Denomination therefor shall be rejected.

(viii) Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the All Hold Rate shall be valid and any such Bid shall be considered as valid and shall be selected in the ascending order of the respective rates in the Submitted Bids.

(ix) An Existing Holder that offers to purchase additional ARS is, for purposes of such offer, treated as a Potential Holder.

(x) Any Bid specifying a rate higher than the Maximum ARS Rate will (i) be treated as a Sell Order if submitted by an Existing Holder and (ii) not be accepted if submitted by a Potential Holder.

(c) Determination of Sufficient Clearing Bids, Auction Rate and Winning Bid Rate.

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

A. the excess of the total principal amount of Outstanding ARS over the sum of the aggregate principal amount of Outstanding ARS subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available ARS"); and

B. from such Submitted Orders whether:

(1) the aggregate principal amount of Outstanding ARS subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum ARS Rate, exceeds or is equal to the sum of:

(2) the aggregate principal amount of Outstanding ARS subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum ARS Rate; and

(3) the aggregate principal amount of Outstanding ARS subject to Submitted Sell Orders;

(in the event such excess or such equality exists, other than because the sum of the principal amounts of ARS in subclauses (2) and (3) above is zero because all of the Outstanding ARS are subject to Submitted Hold Orders, such Submitted Bids in subclause (1) above being hereinafter referred to collectively as "Sufficient Clearing Bids"); and

C. if Sufficient Clearing Bids have been made, the lowest rate specified in such Submitted Bids (which shall be the "Winning Bid Rate") such that if:

(1) (aa) each such Submitted Bid from Existing Holders specifying such lowest rate and (bb) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of ARS subject to such Submitted Bids; and

(2) (aa) each such Submitted Bid from Potential Holders specifying such lowest rate and (bb) all other Submitted Bids from Potential Holders specifying lower rates were accepted;

the result would be that such Existing Holders described in subclause (1) above would continue to hold an aggregate principal amount of Outstanding ARS which, when added to the aggregate principal amount of Outstanding ARS to be purchased by such Potential Holders described in subclause (2) above, would equal not less than the Available ARS.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (i) of this subsection (c), the Auction Agent shall advise the Fiscal Agent by facsimile of the All Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period (the "Auction Rate") as follows:

A. if Sufficient Clearing Bids have been made, that the Auction Rate for the next succeeding Interest Period shall be equal to the Winning Bid Rate so determined;

B. if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARS are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period shall be equal to the Maximum ARS Rate; or

C. if all Outstanding ARS are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period shall be equal to the All Hold Rate.

(d) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of ARS. Existing Holders shall continue to hold the principal amount of ARS that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to Section 1.6(c)(i) of this Exhibit C, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraph (iv) of this subsection (d), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

A. Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of ARS subject to such Submitted Bids;

B. Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

C. Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring such Potential Holder to purchase the aggregate principal amount of ARS subject to such Submitted Bids;

D. each Existing Holders' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of ARS subject to such Submitted Bid, unless the aggregate principal amount of Outstanding ARS subject to all such Submitted Bids shall be greater than the principal amount of ARS (the "remaining principal amount") equal to the excess of the Available ARS over the aggregate principal amount of ARS subject to Submitted Bids described in clauses (B) and (C) of this paragraph (i), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of ARS subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the remaining principal

amount by a fraction the numerator of which shall be the principal amount of Outstanding ARS held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of Outstanding ARS subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

E. each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of ARS obtained by multiplying the excess of the aggregate principal amount of Available ARS over the aggregate principal amount of ARS subject to Submitted Bids described in clauses (B), (C) and (D) of this paragraph (i) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARS subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Outstanding ARS subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARS are subject to Submitted Hold Orders), subject to the provisions of paragraph (iv) of this subsection (d), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

A. Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum ARS Rate shall be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

B. Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum ARS Rate shall be accepted, thus requiring each Potential Holder to purchase the aggregate principal amount of ARS subject to such Submitted Bids; and

C. each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum ARS Rate and the Submitted Sell Order of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the ARS subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the aggregate principal amount of ARS subject to Submitted Bids described in clause (B) of this paragraph (ii) by a fraction the numerator of which shall be the aggregate principal amount of Outstanding ARS held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding ARS subject to all such Submitted Bids and Submitted Sell Orders.

Notwithstanding anything to the contrary in this Exhibit C (including this Section 1.6(d)(ii)), if Sufficient Clearing Bids have not been made (other than because all of the Outstanding ARS are subject to Submitted Hold Orders) and the Auction Rate remains at the Maximum ARS Rate for ninety (90) consecutive days, then the City (but only if an Event of Default exists under the Master Resolution at the end of such ninety (90) day period) shall within ninety (90) days thereafter either (i) using its best efforts seek to

refund all of the Outstanding ARS or (ii) convert the Outstanding ARS to a different interest rate mode selected by the City (provided that the Master Resolution has been amended, in accordance with Article VIII thereof, to permit such conversion to a different interest rate mode). In the event the City refunds the Outstanding ARS pursuant to the preceding sentence, then upon the request of the City, the 2004B Bond Insurer shall determine, in its sole discretion, whether any of the bond insurance premium paid to insure the Outstanding ARS shall be applied to reduce the cost of any new insurance policy to insure the new refunding bonds, if such insurance policy is issued by MBIA Insurance Corporation.

(iii) If all Outstanding ARS are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in paragraph (i) or (ii) of this subsection (d), any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of ARS that is not equal to an Authorized Denomination therefor the Auction Agent shall, in such manner as it shall, in its sole discretion, determine, round up or down the principal amount of ARS to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of ARS purchased or sold by each Existing Holder or Potential Holder shall be equal to an Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing any ARS.

(e) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amount of ARS to be purchased and the aggregate principal amount of ARS to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of ARS to be sold differs from such aggregate principal amount of ARS to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, ARS.

Section 1.7 Certain Orders Not Permitted. The City may not submit an Order in any Auction. The Auction Agent shall have no duty or liability in monitoring or enforcing compliance with this Section 1.7.

Section 1.8 Notice of Payment Defaults and Cures; Payment of Service Charges.

(a) The Fiscal Agent shall from funds received from the City based on invoices provided by the Auction Agent and deposited to an account established by the Fiscal Agent for that purpose (the "Auction Agent Account") pay to the Auction Agent from the Auction Agent Account, on behalf of the Holders of the ARS in same day funds, (i) on each Interest Payment Date (or such other dates as the Auction Agent, Fiscal Agent and City may agree), an amount equal to the Auction Agent Fee as provided for in the Auction Agency Agreement and in any other fee arrangement to which the City has agreed and (ii) on each date specified in Section 2.5 of the Broker-Dealer Agreement, an amount equal to the Broker-Dealer fee as provided in such Section 2.5.

(b) By 12:30 p.m. New York City time on the Business Day immediately succeeding each Interest Payment Date, the Fiscal Agent will determine if a Payment Default has occurred. If a Payment Default has occurred, the Fiscal Agent shall notify the Auction Agent and the Broker-Dealer by 1:00 p.m. New York City time of such Payment Default. If a Payment Default has been cured, the Fiscal

Agent shall so notify the Auction Agent and the Broker-Dealer by 5:00 p.m. New York City time on the day such Payment Default is cured.

Section 1.9 Calculation of All Hold Rate. The Auction Agent shall calculate the All Hold Rate on each Auction Date. If a Payment Default shall have occurred, the Fiscal Agent shall announce the Default Rate on the first day of (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default. If for any reason on any Auction Date the Index shall not be determined as provided herein, the Index shall be the Index for the immediately preceding Business Day. The determination of the Index as provided herein shall be (in the absence of manifest error) conclusive and binding upon the City, the Fiscal Agent, the Broker-Dealers, the Auction Agent, the 2004B Bond Insurer and the Owners of the ARS.

Section 1.10 Computation of Interest. The amount of interest distributable to Holders of ARS in respect of each \$25,000 in principal amount thereof for any Interest Period or part thereof shall be calculated by applying the respective Applicable ARS Rate for such Interest Period or part thereof to the principal amount of \$25,000, multiplying such product by the actual number of days in the Interest Period or part thereof concerned divided by 360, and truncating the resultant figure to the nearest one cent. Interest on the ARS shall be computed by the Fiscal Agent on the basis of a 360-day year for the number of days actually elapsed. The Fiscal Agent shall make the calculation required in this Section 1.10 not later than the close of business on each Auction Date.

Section 1.11 Notification of Rates, Amounts and Payment Dates.

(a) The Fiscal Agent shall determine the aggregate amount of interest distributable on the next succeeding Interest Payment Date to the Holders of the ARS. So long as the ownership of the ARS is maintained in book-entry form by the Securities Depository, the Fiscal Agent shall advise the Securities Depository of each Record Date for the ARS at least two Business Days prior thereto.

(b) Promptly after each Interest Payment Date for the ARS, the Fiscal Agent shall:

(i) so long as no Payment Default has occurred and is continuing and the ownership of the ARS is maintained in book-entry form by the Securities Depository, confirm the Auction Agent's determination of (A) the date of such next Interest Payment Date and (B) the amount payable to the Auction Agent pursuant to Section 1.8 hereof and notify the Auction Agent of any discrepancy therein; and

(ii) advise the Securities Depository, so long as the ownership of the ARS is maintained in book-entry form by the Securities Depository, of the respective Applicable ARS Rate and the Interest Amount in respect of the next succeeding Interest Period.

In the event that any day that is scheduled to be an Interest Payment Date shall be changed after the Fiscal Agent shall have given the notice referred to in clause (i) of the preceding sentence, not later than 9:15 a.m., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, the Fiscal Agent shall, by such means as the Fiscal Agent deems practicable, give notice of such change to the Auction Agent, so long as no Payment Default has occurred and is continuing and the ownership of the ARS is maintained in book-entry form by the Securities Depository.

Section 1.12 Adjustment in Percentages.

(a) The Market Agent shall adjust the percentage used in determining the All Hold Rate, if any such adjustment is necessary, in the judgment of the Market Agent, to reflect any Change of Preference Law or change in market convention such that ARS paying the All Hold Rate shall have equal market values before and after such Change of Preference Law or change in market convention. Prior to any such adjustment, the City shall give notice thereof to the Rating Agencies and no such adjustment shall be made unless such adjustment will not adversely affect the rating on any of the ARS. In making any such adjustment, the Market Agent shall take the following factors, as in existence both before and after such Change of Preference Law or change in market convention, into account:

- (i) short-term taxable and tax-exempt market rates and indices of such short-term rates;
- (ii) the market supply and demand for short-term tax-exempt securities;
- (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the ARS;
- (iv) general economic conditions; and
- (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the ARS.

(b) The Market Agent shall effectuate an adjustment in the percentage used in determining the All Hold Rate by delivering to the City, the Fiscal Agent and the Auction Agent at least 10 days prior to the Auction Date on which the Market Agent desires to effect such change a Favorable Opinion and a certificate in substantially the form attached hereto as Exhibit D, authorizing the adjustment of the percentage used in determining the All Hold Rate, which shall be specified in such certificate.

Section 1.13 Market Agent. The Fiscal Agent shall enter into a Market Agent Agreement with Citigroup Global Markets Inc., as the initial Market Agent. The Market Agent shall serve as such under the terms and provisions hereof and of the Market Agent Agreement. The Market Agent, including any successor appointed pursuant hereto, shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least \$50,000,000, be authorized by law to perform all the duties imposed upon it by this Seventh Supplemental Resolution and the Market Agent Agreement and be approved by the 2004B Bond Insurer. The Market Agent may be removed at any time by the Fiscal Agent, acting at the direction of (a) the City, (b) the 2004B Bond Insurer or (c) the holders of 66-2/3% of the aggregate principal amount of the ARS; provided, that such removal shall not take effect until the appointment of a successor Market Agent. The Market Agent may resign upon 30 days' written notice delivered to the City, the Fiscal Agent and the 2004B Bond Insurer. The City shall use its best efforts to appoint a successor Market Agent that is a qualified institution, effective as of the effectiveness of any such resignation or removal. The Fiscal Agent shall not be liable in any way for any action taken, suffered, or omitted, or for any error of judgment made by the Market Agent, whether in the performance of its duties under the Market Agent Agreement or otherwise.

Section 1.14 Auction Agent.

(a) Deutsche Bank Trust Company Americas shall serve as the initial Auction Agent for the ARS. The Fiscal Agent is hereby directed to enter into an agreement with the Auction Agent

which shall provide the following. The Auction Agent shall be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$50,000,000 or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agency Agreement and approved by the 2004B Bond Insurer. The Auction Agent may resign and be discharged of the duties and obligations created by this Seventh Supplemental Resolution by giving at least 90 days' written notice to the City, the Fiscal Agent, the Market Agent and the 2004B Bond Insurer (30 days' written notice if the Auction Agent has not been paid its fee for more than 30 days), and upon the expiration of such thirty (30) day period, the Auction Agent may resign even if a successor Auction Agent has not been appointed. The Auction Agent may be removed upon written notice to the Fiscal Agent, the City, the Market Agent and the 2004B Bond Insurer on the date specified in such notice, which date shall be no earlier than ninety (90) days after the date of delivery of such notice; provided, however, that the Auction Agent may be removed at any time (i) for cause (as determined by the 2004B Bond Insurer) by the 2004B Bond Insurer or (ii) with the prior written consent of the 2004B Bond Insurer (which consent shall not be unreasonably withheld), by the Fiscal Agent if the Auction Agent is an entity other than the Fiscal Agent, acting at the direction of the City or the holders of 66-2/3% of the aggregate principal amount of the ARS; provided that, if required by the Market Agent, an agreement in substantially the form of the Auction Agency Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Fiscal Agent are the same entity, the Auction Agent may be removed as described above, with the City acting in lieu of the Fiscal Agent.

(b) In the event that the Auction Agent shall resign or be removed or dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the City shall use its best efforts to appoint a successor as Auction Agent and the Fiscal Agent shall thereupon enter into an Auction Agency Agreement with such successor.

(c) The Auction Agent shall act pursuant to the Auction Agency Agreement in connection with Auctions. In the absence of willful misconduct or negligence on its part, the Auction Agent, whether acting directly or through its agents or attorneys, shall not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

(d) Notwithstanding that the Fiscal Agent is a party to the Auction Agency Agreement, the Fiscal Agent shall not be liable in any way for any action taken, suffered or omitted, or for any error of judgment made by the Auction Agent, whether in the performance of its duties under the Auction Agency Agreement or otherwise, subject to Section 3.4(b) of the Auction Agency Agreement.

Section 1.15 Broker-Dealers.

(a) The Auction Agent shall enter into a Broker Dealer Agreement with Citigroup Global Markets Inc., as the initial Broker-Dealer. The Market Agent may from time to time approve, as provided in Section III of the Market Agent Agreement, one or more additional persons submitted by the City to serve as Broker-Dealer under Broker-Dealer Agreements; provided, however, the approval of the Market Agent shall not be required if the Market Agent is in default of its obligations under the Market Agent Agreement.

(b) Any Broker-Dealer may be removed at any time, at the request of the City, but there shall, at all times, be at least one Broker-Dealer appointed and acting as such.

Section 1.16 Redemption of ARS. The ARS shall be subject to redemption prior to maturity as provided in this Seventh Supplemental Resolution.

Section 1.17 Changes in Auction Periods or Auction Date.

(a) Changes in Auction Period or Periods.

(i) While any of the ARS are outstanding, the Market Agent with the written consent of the City may change, from time to time, the length of one or more Auction Periods and, in connection therewith, change Interest Payment Dates to or from Interest Payment Dates specified in the notice described below corresponding to the end of each Interest Period and Auction Period; any such change shall be considered a “change in the length of one or more Auction Periods” for the purposes of this Seventh Supplemental Resolution. The Market Agent shall initiate the change in the length of one or more Auction Periods by giving written notice to the Fiscal Agent, the Auction Agent, the City, the 2004B Bond Insurer and the Securities Depository in the form of Exhibit E to this Seventh Supplemental Resolution at least ten (10) days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall not be less than seven days. No change in an Auction Period from an Auction Period of one year or less to an Auction Period of more than one year shall occur unless there shall have been delivered to the Fiscal Agent a Favorable Opinion; and no change in Auction Period from an Auction Period of more than one year to an Auction Period of one year or less shall occur unless there shall have been delivered to the Fiscal Agent a Favorable Opinion.

(iii) The change in the length of one or more Auction Periods shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this Section 1.17(a) and the Auction immediately preceding the proposed change.

(iv) The change in length of one or more Auction Periods shall take effect only if (A) the Fiscal Agent and the Auction Agent receive, by 11:00 a.m. New York City time, on the Business Day before the Auction Date for the first such Auction Period, a second confirming certificate from the Market Agent also in the form of Exhibit E to this Seventh Supplemental Resolution, authorizing the change in the length of one or more Auction Periods specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) above is not met, the Applicable ARS Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Applicable ARS Rate for the next Auction Period shall be the Maximum ARS Rate and the Auction Period shall be the Auction Period determined without reference to the proposed change.

(b) Changes in the Auction Date. While any of the ARS are outstanding, the Market Agent (with the written consent of the City):

(i) in order to conform with then current market practice with respect to similar securities, shall; or

(ii) in order to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the ARS and upon receipt of a Favorable Opinion, may

specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in Section 1.1 of this Exhibit C with respect to one or more specified Auction Periods. The Market Agent shall provide notice of any determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Fiscal Agent, the Auction Agent, the City, the 2004B Bond Insurer and the Securities Depository. Such notice shall be substantially in the form of, or contain substantially the information contained in, Exhibit F to this Seventh Supplemental Resolution.

(c) In connection with any change described in this Section 1.17, the Auction Agent shall provide such further notice to such parties as is specified in the Auction Agency Agreement.

(d) No change shall be made to the Auction Period or Auction Date unless the City shall have received written confirmation from the Rating Agencies that the ratings on any of the ARS will not be adversely affected.

Section 1.18 Credit Ratings. The City shall take all reasonable action necessary to enable at least one nationally recognized statistical rating organization (as that term is used in the rules and regulations of the SEC under the Exchange Act) to provide credit ratings for the ARS.

Section 1.19 Notices. The City shall use its best efforts to provide the Fiscal Agent, the 2004B Bond Insurer and the Broker-Dealers and, so long as no Payment Default has occurred and is continuing and the ownership of the ARS is maintained in book-entry form by the Securities Depository, the Auction Agent with notice of any change in the maximum rate permitted by law on the ARS.

Section 1.20 Purchases of ARS. The City shall not purchase or otherwise acquire ARS unless the City redeems or otherwise cancels such ARS on the day of any such purchase or acquisition.

Section 1.21 Notice of Payment Default.

(a) If the City determines that a Payment Default has occurred the City shall promptly notify the Fiscal Agent and the 2004B Bond Insurer thereof.

(b) So long as the ownership of the ARS is maintained in book-entry form by the Securities Depository, upon the occurrence of a Payment Default, the Fiscal Agent shall immediately send a notice thereof to the Auction Agent and the Market Agent by telecopy or similar means.

(c) So long as the ownership of the ARS is maintained in book-entry form by the Securities Depository, the Fiscal Agent shall immediately send notice to the Auction Agent and the Market Agent by telecopy or similar means if a Payment Default is cured.

Attachment B

Capitalized terms used herein shall have the respective meanings specified in the Seventh Supplemental Resolution and the Broker-Dealer Agreement, as applicable.

(a) Not later than 3:00 p.m. New York City time on each Auction Date, the Auction Agent is required to notify by electronic means the Broker-Dealers that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Holder or Potential Holder of:

- (i) the Auction Rate fixed for the next Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;
- (iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be sold by such Existing Holder;
- (iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of ARS, if any, to be purchased by such Potential Holder;
- (v) if the aggregate principal amount of ARS to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different than the aggregate principal amount of ARS to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more other Buyer's Broker-Dealers (and the Participant, if any, of each such other Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of ARS and the principal amount of ARS to be purchased from one or more Existing Holders on whose behalf such Broker-Dealer acted by one or more Potential Holders on whose behalf each of such other Buyer's Broker-Dealers acted;
- (vi) if the principal amount of ARS to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid exceeds the amount of ARS to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the agent member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of ARS and the principal amount of ARS to be sold to one or more Potential Holders on whose behalf such Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted;
- (vii) unless previously provided, a list of all Applicable ARS Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and
- (viii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall:

- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Bidder's Participant to pay to such Broker-Dealer (or its Participant) through DTC the amount necessary to purchase the principal amount of ARS to be purchased pursuant to such Bid against receipt of such principal amount of ARS;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Broker-Dealer (or its Participant) through DTC the principal amount of ARS to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it pursuant to paragraph (b)(ii) above, and any ARS received by it pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date shall instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to the Participant of the Existing Holder delivering ARS to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest, if any, to purchase such ARS against receipt of such ARS, and (B) deliver such ARS through DTC to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in DTC shall instruct its Participant to (A) pay through DTC to a Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary, including accrued interest, if any, to purchase the ARS to be purchased pursuant to (b)(ii) above against receipt of such ARS, and (B) deliver such ARS through DTC to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next succeeding each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above shall instruct DTC to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and DTC shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(ii) above for such Auction, and DTC shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct DTC to execute the transactions described in (d)(iii) above for such Auction, and DTC shall execute such transactions.

(f) If an Existing Holder selling ARS in an Auction fails to deliver such ARS (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of ARS that is less than the principal amount of ARS that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of ARS to be so delivered shall be determined solely by such Broker-Dealer. Delivery of such lesser principal amount of ARS shall constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or non-delivery of ARS which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or non-delivery in accordance with the provisions of the Auction Agency Agreement and the Broker-Dealer Agreement.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Riverside (the "City") in connection with the City's issuance of \$110,000,000 Electric Revenue Bonds, Issue of 2004 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 17662 of the City adopted by the City Council on January 8, 1991, as supplemented and amended, including as supplemented by Resolution No. 20674 adopted by the City Council on May 11, 2004 and as supplemented by Resolution No. 20675 adopted by the City Council on May 11, 2004 (collectively, the "Master Resolution"). The City covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Master Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean any person or entity appointed by the City and that has entered into a written agreement with the City pursuant to which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

"Fiscal Year" shall mean the one-year period ending on June 30 of each year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit A.

"Owner" shall mean a registered owner of the Bonds.

"Participating Underwriter" shall mean the original underwriter or underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days following the end of each Fiscal Year of the City (which Fiscal Year presently ends on June 30), commencing with the report for Fiscal Year 2003-04, provide to each Repository an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the City changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent, if any. If by such date the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City or the Dissemination Agent, if any, as the case may be, has not furnished any Annual Report to the Repositories by the date required in subsection (a), the City or the Dissemination Agent, as applicable, shall send a notice to each Repository in substantially the form attached as Exhibit B.

(d) The City (or, in the event that the City shall appoint a Dissemination Agent hereunder, the Dissemination Agent) shall file the Annual Report with each Repository on or before the date required in subsection (a). In addition, if the City shall have appointed a Dissemination Agent hereunder, the Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

1. The audited financial statements of the City’s Electric Utility for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles for governmental enterprises as prescribed from time to time by the Governmental Accounting Standards Board.

2. Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year.

3. Balance in the 2004 Reserve Account as of the end of the immediately preceding Fiscal Year and a statement of the 2004 Bond Reserve Requirement.

4. Updated information comparable to the information in the table entitled "Electric System Facilities" as it appears in the Official Statement.
5. Updated information comparable to the information in the table entitled "Annual Electricity Supply" as it appears in the Official Statement.
6. Updated information comparable to the information in the table entitled "Total Energy Generated and Purchased and Peak Demand" as it appears in the Official Statement.
7. Updated information comparable to the information in the table entitled "Average Number of Customers" as it appears in the Official Statement.
8. Updated information comparable to the information in the table entitled "Energy Sold" as it appears in the Official Statement.
9. Updated information comparable to the information in the table entitled "Percentage Increase in Electric Rates" as it appears in the Official Statement.
10. Updated information comparable to the information in the table entitled "Revenues From Sales of Electricity" as it appears in the Official Statement.
11. Updated information comparable to the information in the table entitled "Average Billing Price" as it appears in the Official Statement.
12. Updated information comparable to the information in the table entitled "Historical Summary of Operations and Debt Service Coverage" as it appears in the Official Statement.
13. Updated information comparable to the information in the table entitled "Outstanding Debt of Joint Powers Agencies" as it appears in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, that have been submitted to each of the Repositories; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Bondholders.
4. optional, contingent or unscheduled Bond calls.
5. defeasances.
6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. substitution of the credit or liquidity providers or their failure to perform.
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Master Resolution.

SECTION 6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

SECTION 7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Master Resolution, and the sole remedy

under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Owner or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the City and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: June __, 2004

CITY OF RIVERSIDE

By: _____
Paul C. Sundeen
Finance Director and City Treasurer

EXHIBIT A

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of the date of this Disclosure Certificate:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
Email: [Munis@Bloomberg.com](mailto: Munis@Bloomberg.com)

DPC Data Inc.

One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
<http://www.dpcdata.com>
Email: [nrmsir@dpcdata.com](mailto: nrmsir@dpcdata.com)

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
<http://www.interactivedata.com>
Email: [nrmsir@ftid.com](mailto: nrmsir@ftid.com)

Standard & Poor's Securities Evaluations, Inc.

55 Water Street, 45th Floor
New York, New York 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: [nrmsir_repository@sandp.com](mailto: nrmsir_repository@sandp.com)

An updated list of Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission may be found at the following internet address: <http://www.sec.gov/consumer/NRMSIR.htm>

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: ELECTRIC REVENUE BONDS, ISSUE OF 2004

Date of Issuance: June __, 2004

NOTICE IS HEREBY GIVEN that the City of Riverside, California (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated June __, 2004 relating to the Bonds, Resolution No. 20674 adopted by the City Council on May 11, 2004, and Resolution No. 20675 adopted by the City Council on May 11, 2004. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF RIVERSIDE, CALIFORNIA

By: _____

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2004 Bonds. The 2004 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2004 Bond certificate will be issued for each maturity of each Series of the 2004 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2004 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2004 Bonds, except in the event that use of the book-entry system for the 2004 Bonds is discontinued.

To facilitate subsequent transfers, all 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2004 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2004 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of 2004 Bonds may wish to ascertain that the nominee holding the 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2004 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2004 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price (if any) and interest payments on the 2004 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2004 Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2004 Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2004 Bond certificates will be printed and delivered.

Discontinuation of the Book-Entry System

In the event that DTC determines not to continue to act as securities depository by giving notice to the City and the Fiscal Agent, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the 2004 Bonds that they be able to obtain certificates, the Fiscal Agent will execute, transfer and exchange 2004 Bonds as requested by DTC and will deliver new 2004 Bonds in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the 2004 Bonds will be payable upon surrender thereof at the principal corporate trust office of the Fiscal Agent. The interest on 2004 Bonds will be payable by check mailed to the respective owners thereof at their addresses as they appear on the books maintained by the Fiscal Agent.

Transfer and Exchange of 2004 Bonds

Any 2004 Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Resolution, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2004 Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent. The 2004 Bonds may be exchanged at the corporate trust office of the Fiscal Agent for a like aggregate principal amount of 2004 Bonds of other authorized denominations of the same series, tenor, maturity and interest rate by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2004 Bond for cancellation; provided that no transfer or exchange may occur during the period established by the Fiscal Agent for selection of 2004 Bonds for redemption, or of any 2004 Bond or portion of a 2004 Bond so selected for redemption. The Fiscal Agent shall require the bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

The foregoing description concerning DTC and DTC's book-entry system is based solely on information furnished by DTC. No representation is made herein by the City or the Underwriter as to the accuracy or completeness of such information.

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APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

City of Riverside
Riverside, California

\$110,000,000
City of Riverside
Electric Revenue Bonds, Issue of 2004

Ladies and Gentlemen:

We have acted as bond counsel to the City of Riverside, California (the "City") in connection with the issuance by the City of its Electric Revenue Bonds, Issue of 2004 (the "Bonds") in the aggregate principal amount of \$110,000,000, comprised of \$27,500,000 principal amount of Electric Revenue Bonds, Issue of 2004A and \$82,500,000 principal amount of Electric Revenue Bonds, Issue of 2004B. The Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the "Ordinance"), and Resolution No. 17662 adopted by the City Council on January 8, 1991, as amended and supplemented, including as supplemented by Resolution No. 20674 adopted by the City Council on May 11, 2004 and by Resolution No. 20675 adopted by the City Council on May 11, 2004 (collectively, the "Bond Resolution").

In our capacity as bond counsel, we have reviewed the Charter, certified copies of proceedings for the authorization, issuance and sale of the Bonds, including, without limitation, the Ordinance and the Bond Resolution, certifications of the City and others, opinions of counsel to the City and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Resolution.

Certain requirements and procedures contained or referred to in the Bond Resolution and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Resolution, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Bond Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special revenue obligations of the City.
2. The Bond Resolution was duly adopted at meetings of the City Council of the City which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.
3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Bond Resolution. The general fund of the City is not liable for the payment of the Bonds or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds or their interest.
4. Additional Bonds and other Parity Debt of the City have been and may from time to time hereafter be issued under the Bond Resolution which are payable from Net Operating Revenues on a parity basis with the Bonds.
5. The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. The City has covenanted in the Bond Resolution to maintain the exclusion of the interest on the Bonds from the gross income of the owners therefore for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75% of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our

opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

Very truly yours,

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]

[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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