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American Electric Power
1 Riverside Plaza
Columbus, OH 43215
AEP.com

PUCO

The Public Utilities Commission of Ohio
180 East Broad Street
Columbus, OH 43215

Re: **Columbus Southern Power Company**
Case No. 07-479-EL-AIS

August 21, 2007

Gentlemen:

Enclosed are one executed and five conformed copies of a Report in the captioned matter.

Please time-stamp the enclosed, extra copy of this Report and return it to me in the enclosed, self-addressed, stamped envelope.

Very truly yours,

A handwritten signature in dark ink, appearing to read 'W E Johnson', is written over the typed name.

William E. Johnson

WEJ/jlh

Enclosures

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.
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In the Matter of	:	
the application of	:	
COLUMBUS SOUTHERN POWER COMPANY	:	Case No. 07-479-EL-AIS
for authority to finance portions of environmental and	:	
pollution control facilities, to enter into Loan Agreements:	:	
or Installment Agreements of Sale with the Ohio Air	:	
Quality Development Authority and to enter into	:	
Interest Rate Management Agreements	:	
.....	:	

TO THE HONORABLE PUBLIC UTILITIES COMMISSION OF OHIO:

On August 15, 2007, the Authority issued and sold to Morgan Stanley & Co. Incorporated and KeyBanc Capital Markets Inc. (the "Underwriters") \$44,500,000 aggregate principal amount of its Air Quality Revenue Bonds (Columbus Southern Power Company Project), Series 2007A, dated as of August 15, 2007 (the "Series 2007A Bonds"). The Series 2007A Bonds bear interest at a 35-day auction rate which is the minimum rate necessary (as determined by the Underwriters) for the Underwriters to sell the Series 2007A Bonds on the date the auction rate is set (3.80% on the date of

issue) and mature by their terms on August 1, 2040. The Series 2007A Bonds were sold by the Authority to the Underwriters at an initial offering price of 100% of the principal amount. The Company paid \$155,750 to the Underwriters as compensation. The Series 2007A Bonds were issued by the Authority pursuant to an Indenture of Trust dated as of August 1, 2007 between the Authority and The Bank of New York Trust Company, N.A., as Trustee. A copy of the Official Statement, dated August 9, 2007, is attached hereto as Exhibit A to this Report.

The transaction described herein was consummated in accordance with the terms and conditions of and for the purposes set forth in said Order.

Respectfully submitted this 21st day of August, 2007.

By 
Assistant Secretary

NEW ISSUE—BOOK ENTRY ONLY

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) interest on the Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. See TAX EXEMPTION.

\$44,500,000
OHIO AIR QUALITY DEVELOPMENT AUTHORITY
STATE OF OHIO
AIR QUALITY REVENUE BONDS
(COLUMBUS SOUTHERN POWER COMPANY PROJECT),
SERIES 2007A

Interest to accrue from date of issuance

Due: August 1, 2040

The Series 2007A Bonds (the "Bonds") are special obligations of the State of Ohio and issued by the Ohio Air Quality Development Authority (the "Issuer"). The Bonds will not constitute a debt, or a pledge of the faith and credit, of the Issuer, the State of Ohio or any political subdivision thereof, and the holders or owners of the Bonds will have no right to have taxes levied by the General Assembly of Ohio or any political subdivision of Ohio for the payment of the principal of, interest on or purchase price of the Bonds. The Bonds are payable solely from, and secured by a pledge of, the loan repayments under a note issued under the terms of a Loan Agreement (the "Agreement") between the Issuer and

COLUMBUS SOUTHERN POWER COMPANY

Payments of the principal of, and interest on, the Bonds when due will be insured by a financial guaranty insurance policy (the "Policy") to be issued by MBI Insurance Corporation (the "Insurer") simultaneously with the delivery of the Bonds. See BOND INSURANCE.



The Bonds will bear interest at an Auction Rate from their date of original issuance and delivery (the "Issue Date") for the period to but not including September 21, 2007 (the "Initial Period") at a rate established by the Underwriters (as defined below) prior to the Issue Date and thereafter at the Auction Rate for each Auction Period. Interest on the Bonds will be adjusted based upon 35-day Auction Periods (or, at the option of the Company, any period having a length of less than 365 days). The first Auction Date for the Bonds shall be September 20, 2007, the last Business Day of the Initial Period. Generally, the Interest Payment Date for an Auction Period will be the Business Day immediately following each Auction Period. The length of the Auction Period with respect to the Bonds may be changed in accordance with the Indenture.

Upon satisfaction of certain conditions, Bonds in an Auction Mode may be converted to a different interest rate mode as described herein. This Official Statement has been prepared only to describe the Bonds while they are in an Auction Mode for an Auction Period of 35 days or less.

The Bonds are subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof plus accrued interest to the purchase date, on the effective date of any conversion of such Bonds from an Auction Mode to another interest rate mode as described herein. The Bonds are also subject to redemption, in whole or in part, as described herein.

The Bonds will be issued as fully registered bonds and will be registered initially in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC acts as a securities depository for the Bonds. During an Auction Period, the Bonds will be issued in denominations of \$25,000 and integral multiples thereof. Except under the limited circumstances described herein, Beneficial Owners (as defined herein) of book-entry interests in the Bonds will not receive certificates representing their interests. Payments of principal of and premium, if any, and interest on the Bonds will be made through DTC and disbursements of such payments to Beneficial Owners will be the responsibility of DTC and its Participants (see THE BONDS—Book-Entry Only System herein). Morgan Stanley & Co. Incorporated and KeyBanc Capital Markets Inc. will act as underwriters (the "Underwriters") for the Bonds. Morgan Stanley & Co. Incorporated and KeyBanc Capital Markets Inc. will act as Broker-Dealers for the Bonds. The Bank of New York will act as Auction Agent. The Bank of New York Trust Company, N.A. will act as Trustee and Paying Agent for the Bonds.

PRICE: 100%

This cover page contains limited information for quick reference only and is not a summary of this Official Statement. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriters, subject to the approval of their validity by Squire, Sanders & Dempsey L.L.P., Cleveland, Ohio, Bond Counsel, as described herein, and certain other conditions. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income for Federal income tax purposes of interest thereon, will be passed on for the Underwriters by their counsel, Dewey Ballantine LLP, New York, New York, and for the Company by its internal counsel.

Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Delivery of the Bonds in book-entry-only form is expected on or about August 15, 2007, through the facilities of DTC in New York, New York, against payment therefor.

MORGAN STANLEY

KEYBANC CAPITAL MARKETS

Dated: August 9, 2007

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No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offer made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Company or the Underwriters. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than information under *THE ISSUER*.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE BONDS, INCLUDING BY ENTERING STABILIZING BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE *UNDERWRITING* HEREIN.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE COMPANY, THE INSURER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

\$44,500,000
Ohio Air Quality Development Authority
State of Ohio
Air Quality Revenue Bonds
(Columbus Southern Power Company Project),
Series 2007A

INTRODUCTORY STATEMENT

This Official Statement, including the Appendices hereto, is provided to furnish certain information in connection with the issuance by the Ohio Air Quality Development Authority, a body politic and corporate of the State of Ohio ("Issuer") of State of Ohio Air Quality Revenue Bonds (Columbus Southern Power Company Project) Series 2007A, in the aggregate principal amount of \$44,500,000 (the "Bonds"). The Issuer neither has nor assumes any responsibility as to the accuracy or completeness of the information in this Official Statement, all of which has been furnished by others, other than the information pertaining to the Issuer under *THE ISSUER*.

The Bonds will be issued under and pursuant to a resolution of the Issuer adopted on July 10, 2007 ("Resolution") and an Indenture of Trust, dated as of August 1, 2007 ("Indenture"), between the Issuer and The Bank of New York Trust Company, N.A., as trustee (in such capacity, the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Indenture.

Pursuant to a Loan Agreement, dated as of August 1, 2007 ("Agreement"), between the Issuer and Columbus Southern Power Company ("Company"), the Issuer will loan to the Company the proceeds of the Bonds to assist the Company in financing its portion of the costs of acquiring, constructing and installing portions of certain solid waste disposal facilities comprising "air quality facilities", as defined in the Act, at Units 1-4 at the J.M. Stuart Generating Station located in Brown and Adams Counties, Ohio, and at Unit 4 at the Conesville Generating Station in Coshocton, Ohio (the "Project"). The term "Plant" as used herein means either the J.M. Stuart Generating Station or the Conesville Generating Station.

In order to evidence the loan from the Issuer (the "Loan") and to provide for its repayment, the Company will issue a nonnegotiable promissory note (the "Note") pursuant to the Agreement. Payments required under the Note will be sufficient, together with any other funds on deposit in the Bond Fund (hereinafter described) under the Indenture, to pay the principal of and premium, if any, and interest on the Bonds and to make or provide for payments to the paying agent for the Bonds ("Paying Agent"), initially The Bank of New York Trust Company, N.A., equal to 100% of the principal amount of the Bonds plus accrued interest, if any, upon tender thereof ("Purchase Price"). The Bonds will not otherwise be secured by a mortgage on, or security interest in, any of the Project or any other property of the Company.

The Bonds initially will bear interest at an Auction Rate. The Initial Period for Bonds shall be from the Issue Date to but not including September 21, 2007. Thereafter, the Bonds have a 35-day Auction Period unless changed at the option of the Company, as provided in the Indenture. See *THE BONDS* below and Appendix D – Auction Procedures. The interest rate on the Bonds can be converted from the Auction Rate to Daily, Flexible, Weekly, Monthly, Quarterly, Semiannual, Multiannual or Fixed Rates in accordance with the Indenture, in each case following mandatory tender for purchase of such Bonds upon not less than 15 days' prior written notice to the owners of such Bonds. THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH SUCH BONDS CONVERT TO BEAR INTEREST AT AN INTEREST RATE OTHER THAN AN AUCTION RATE FOR AN AUCTION PERIOD OF 35 DAYS OR LESS.

The Bonds will be issued in authorized denominations of \$25,000 and integral multiples thereof and will be held by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the Bonds. See *THE BONDS – Book-Entry Only System*.

The Bonds are special obligations of the Issuer, and are to be paid solely from, and will be secured by a pledge of, payments to be made to the Issuer under the terms of the Agreement. See *THE BONDS – Security*.

Brief descriptions of the Issuer, the Project, the Bonds, the Policy, the Insurer, the Agreement and the Indenture are included in this Official Statement. Information regarding the business, properties and financial condition of the Company is included or incorporated by reference in Appendix A attached hereto. The form of opinion that Bond Counsel proposes to deliver relating to the Bonds is set forth in Appendix B hereto. The form of the Policy is set forth in Appendix C hereto. Information with respect to the Auction Procedures is set forth in Appendix D hereto. The descriptions herein of the Agreement and the Indenture are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the Company.

THE ISSUER

The Issuer was organized pursuant to Chapter 3706 of the Ohio Revised Code, as amended (the "Act"). Under the Act, the Issuer is a body corporate and politic, with full power and authority to issue the Bonds and to enter into and perform its obligations under the Agreement and the Indenture. The Issuer has no taxing power.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE STATE OF OHIO AND SHALL NOT REPRESENT OR CONSTITUTE A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OR TAXING POWER OF THE ISSUER, THE STATE OF OHIO OR ANY POLITICAL SUBDIVISION OF OHIO, AND THE HOLDERS AND OWNERS THEREOF SHALL HAVE NO RIGHT TO HAVE TAXES LEVIED BY THE GENERAL ASSEMBLY OF OHIO OR THE TAXING AUTHORITY OF ANY POLITICAL SUBDIVISION OF OHIO FOR THE PAYMENT OF THE PRINCIPAL OF, INTEREST ON OR PURCHASE PRICE OF THE BONDS, BUT SHALL BE PAYABLE SOLELY FROM REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT AS AUTHORIZED BY THE ACT.

THE PROJECT

The Project consists of various systems which are designed for the disposal of solid wastes resulting from the operation of the Plant. The solid waste disposal facilities, which comprise "air quality facilities" as defined in Section 3706.01 of the Act, are comprised of the portion of each flue gas desulfurization system ("FGD System") to be constructed with respect to Units 1-4 at the J.M. Stuart Generating Station, each rated at 585 megawatts, and with respect to Unit 4 at the Conesville Generating Station, rated at 780 megawatts, that relates to the disposal of solid waste generated as part of each FGD System.

USE OF PROCEEDS

The proceeds received by the Issuer from the sale of the Bonds will be deposited in the Construction Fund (as defined herein) created under the Indenture to be used to reimburse the Company for costs of the Project and certain costs incident to the sale and issuance of the Bonds.

THE BONDS

This Official Statement does not provide any information regarding the Bonds after the date, if any, on which such Bonds convert to bear interest, as permitted by the Indenture, at an interest rate other than an Auction Rate for an Auction Period of 35 days or less. Such Bonds are subject to mandatory tender in the event of any such conversion. See —*Tender- Mandatory Tender* below.

General

The Bonds are being issued in fully registered form only in the aggregate amounts set forth on the cover page hereof. The Bonds will mature on the date shown on the cover page of this Official Statement.

Interest on the Bonds will be payable on each Interest Payment Date at the rate per annum determined as hereinafter described. Such interest rate may not exceed the lesser of 13% per annum and the maximum rate permitted by the laws of the State of Ohio. The Bonds will initially be issued in the Auction Mode. The Bonds will bear interest from the Issue Date for the Initial Period at a rate established prior to that date by the Underwriters as the minimum rate required to sell the Bonds for delivery on the Issue Date at a price of par. The Initial Period for the Bonds shall be from the Issue Date to but not including September 21, 2007. Following the Initial Period the Bonds will bear interest for 35-day Auction Periods (unless changed at the option of the Company pursuant to the terms of the Indenture as described in – *Conversion from One Auction Period to Another* below). Upon a conversion from an Auction Mode to a Daily, Flexible, Weekly, Monthly, Quarterly, Semiannual, Multiannual or Fixed Rate Mode, the Bonds will be subject to mandatory tender on any such Conversion Date at a price equal to 100% of the principal amount thereof, plus accrued interest; provided, however, that such mandatory tender price is payable solely from the proceeds of the remarketing of such Bonds, and if all such Bonds are not remarketed, such mandatory tender will be cancelled with the effect described under – *Conversion from Auction Mode* below. The Policy is not available to pay such mandatory tender price. The first Auction Date for the Bonds shall be the last Business Day of the Initial Period. Interest will be payable with respect to the Bonds on each Interest Payment Date. During any Auction Period, interest on the Bonds in an Auction Period of 180 days or less will be payable on the applicable Interest Payment Date as herein described computed on the basis of actual days over 360 and in an Auction Period greater than 180 days shall be payable on the applicable Interest Payment Date as herein described and computed on the basis of a 360-day year of twelve 30-day months.

The Bonds may subsequently be converted to the Daily, Flexible, Weekly, Monthly, Quarterly, Semiannual, Multiannual or Fixed Rate Mode. The Daily Mode, Weekly Mode, Monthly Mode, Quarterly Mode and Semiannual Mode are referred to herein as the “Short Term Modes”. Subject to certain conditions, the Bonds may be converted, from time to time, from any Mode then in effect (other than a Fixed Rate Mode) to any Flexible Mode, Short Term Mode, Multiannual Mode or Fixed Rate Mode. THIS OFFICIAL STATEMENT DESCRIBES THE TERMS AND CONDITIONS OF THE BONDS ONLY WHILE IN AN AUCTION MODE FOR AN AUCTION PERIOD OF 35 DAYS OR LESS.

Beneficial interests in the Bonds will initially be issued pursuant to a Book-Entry Only System (“Book-Entry Only System”) maintained by The Depository Trust Company, New York, New York (“DTC”), as described below under the caption *Book-Entry Only System*. Under the Indenture, the Issuer may appoint a successor securities depository to DTC. (DTC, together with any such successor securities depository, is hereinafter referred to as the “Securities Depository”). The following information is subject in its entirety to the provisions described below under the caption *Book-Entry Only System* while the Bonds are in the Book-Entry Only System.

Form and Denomination of Bonds; Payments on the Bonds

General

The Bonds will be issued only as fully registered bonds, without coupons, in denominations of \$25,000 or any integral multiple thereof (an “Authorized Denomination”). The Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC acts as securities depository for the Bonds and individual purchases of Bonds may be made in book-entry form only. So long as the Bonds are in book-entry only form, purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the bondholders or registered owners or holder shall mean Cede & Co., and shall not mean the Beneficial Owners (as defined below) of the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, principal of, premium, if any, and interest on the Bonds are payable to Cede & Co., as nominee for DTC, which will, in turn, remit such amounts to the DTC Participants (as defined below) for subsequent disbursement to the Beneficial Owners. See – *Book-Entry Only System* below.

The Bank of New York Trust Company, N.A. has been appointed as Trustee and Paying Agent under the Indenture. The Designated Office of the Trustee and Paying Agent is located, initially, in New Albany, Ohio. The

Company and its affiliates maintain banking relationships with The Bank of New York Trust Company, N.A. and its affiliates. The Bank of New York Trust Company, N.A. and its affiliates serve as trustee under various indentures with, or for the benefit of, the Company and its affiliates.

Neither the Issuer nor the Paying Agent shall be required to make any transfer or exchange of any Bond during the ten Business Days prior to the mailing of a notice of Bonds selected for redemption or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. Registration of transfers and exchanges shall be made without charge to the bondholders, except that any required taxes or other governmental charges shall be paid by the bondholder requesting registration of transfer or exchange.

Interest

During any Auction Mode, interest shall be payable to the registered holder of the Bonds as of the Record Date (as defined below) by immediately available funds by wire transfer to such holder's registered address. When the Bonds are held in book-entry form, such payments will be made to DTC as record owner (see – *Book-Entry Only System* below).

The Interest Payment Date, except as otherwise provided in Appendix D, with respect to the Bonds in an Auction Mode, is the Business Day immediately following each Auction Period. The Record Date for the Bonds bearing interest at an Auction Rate is the Business Day immediately preceding an Interest Payment Date.

Auction Agent

The Trustee and the Company will enter into an Auction Agreement initially with The Bank of New York, pursuant to which The Bank of New York, as agent for the Company, shall perform the duties of Auction Agent. The Auction Agreements will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures set forth in Appendix D hereto.

Auction Date

An Auction to determine the interest rate with respect to the Bonds for the next succeeding Auction Period will be held (i) on each Business Day while such Bonds are in a one-day Auction Period and (ii) if the Bonds are in an Auction Period of any other length, on the Business Day next preceding each Interest Payment Date for such Bonds. The first Auction for the Bonds will take place on September 20, 2007.

Orders by Existing Owners and Potential Owners

The procedure for submitting Orders prior to the Submission Deadline on each Auction Date is described in the Auction Procedures set forth in Appendix D, as are the particulars with regard to the determination of the Auction Rate and the allocation of the Bonds bearing interest at an Auction Rate (collectively, the "Auction Procedures").

Amendment of Auction Procedures

During any Auction Period, the provisions of the Indenture concerning the Auction Procedures, including, without limitation, the relevant definitions, may be amended by obtaining the consent of the owners of all the Bonds bearing interest at an Auction Rate and the Insurer; provided, however, that changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures. All owners of the Bonds affected by an amendment will be deemed to have consented thereto if, on the first Auction Date occurring at least 20 days after the Trustee mailed notice to such owners, (i) the Auction Rate determined for such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Company and the Trustee an opinion of nationally recognized bond counsel to the effect that such amendment will not adversely affect the validity of the Bonds or any exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. These amendments could adversely affect a holder and may become effective without the actual consent of a holder.

Conversion from Auction Mode

At the option of the Company, the Bonds may be converted to bear interest at a Daily, Flexible, Weekly, Monthly, Quarterly, Semiannual, Multiannual or Fixed Rate. On the Conversion Date applicable to such Bonds, such Bonds shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of such Bonds so tendered is payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all such Bonds, such Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Auction Rate. It is currently anticipated that, should the Bonds be converted to bear interest at a Daily, Flexible, Weekly, Monthly, Quarterly, Semiannual, Multiannual or Fixed Rate, a new reoffering memorandum or reoffering circular will be distributed describing such Bonds while they bear interest at any such interest rate.

Conversion from One Auction Period to Another

During any Auction Period, the Company may, from time to time, on any Interest Payment Date following the end of an Auction Period, change the length of the next Auction Period by means of a written notice delivered at least 10 days prior to the Auction Date for such Auction Period to the Issuer, Insurer, the Auction Agent, the Trustee, the Broker-Dealer and DTC.

The change in length of an Auction Period shall take effect only if Sufficient Clearing Bids (as defined in Appendix D – Auction Procedures) exist at the Auction on the Auction Date for such Auction Period. If this condition is not met, the Auction Rate for the next Auction Period shall equal to the Maximum Auction Rate (as defined in Appendix D – Auction Procedures) and the next succeeding Auction Period shall be seven days.

Special Considerations Relating to the Bonds Bearing Interest at an Auction Mode Rate

Role of Broker-Dealers

Morgan Stanley & Co. Incorporated and KeyBanc Capital Markets Inc. have been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and are paid by the issuers for their services. Morgan Stanley & Co. Incorporated and KeyBanc Capital Markets Inc. receive broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through Morgan Stanley & Co. Incorporated and KeyBanc Capital Markets Inc. in such auctions.

Morgan Stanley & Co. Incorporated and KeyBanc Capital Markets Inc. are designated in Broker-Dealer Agreements as the Broker-Dealers (the “Broker-Dealers”) to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealers will receive Broker-Dealer Fees from the Company with respect to the Bonds sold or successfully placed through it in Auctions. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through them that are filled in the Auction.

Bidding by Broker-Dealers

Each Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If a Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because that Broker-Dealer would have knowledge of the other Orders placed through it in that Auction and thus could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction and (ii) the Auction will clear at a particular rate. For this reason, and because each Broker-Dealer is appointed and paid by the Company to serve as a Broker-Dealer in the Auctions, the Broker-Dealer’s interests in serving as Broker-Dealer in an Auction may differ from those of Existing Owners and Potential Owners who participate in Auctions. See *Role of Broker-Dealers* above. No Broker-Dealer would have knowledge of Orders submitted to the Auction Agent by any other Broker-Dealer or any other firm that may in the future be appointed to accept Orders pursuant to a Broker-Dealer Agreement.

If Broker-Dealers were to resign or be removed so that only one Broker-Dealer remained, that remaining Broker-Dealer would be the only Broker-Dealer to serve as Broker-Dealer in the Auctions, and, as long as that remained the case, it would be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions. As a result, in such circumstances, that Broker-Dealer would be able to discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

Each Broker-Dealer routinely places Bids in Auctions generally for its own account to acquire Bonds while they bear interest at the Auction Rate ("Auction Bonds") for its inventory, to prevent a Failed Auction (which occurs if there is a lack of Sufficient Clearing Bids and results in the Auction Rate being set at the Maximum Auction Rate) or to prevent an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such Auction Bonds. A Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding in an Auction for its own account, a Broker-Dealer also may bid outside or inside the range of rates that it posts in its Price Talk. See *Price Talk* below.

Each Broker-Dealer routinely encourages bidding by others in Auctions generally for which it serves as Broker-Dealer. A Broker-Dealer may also encourage bidding by others in Auctions, including to prevent a Failed Auction or to prevent an Auction from clearing at a rate that such Broker-Dealer believes does not reflect the market for the Auction Bonds. A Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by a Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate - including preventing the Auction Rate from being set at the Maximum Auction Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of the Auction Bonds being auctioned - including displacing some Bidders who may have their Bids rejected or receive fewer Auction Bonds than they would have received if the Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the Auction Bonds involves no significant liquidity or credit risk. A Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other bidders to do so in any particular Auction to prevent a Failed Auction or clearing at a rate the Broker-Dealer believes does not reflect the market for the Auction Bonds. Investors should not assume that a Broker-Dealer will place Bids or encourage others to do so or that Failed Auctions will not occur. Investors should also be aware that Bids by any Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction, if all outstanding Auction Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If a Broker-Dealer holds any Auction Bonds for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction with respect to such Auction Bonds, which would prevent that Auction from being an All Hold Auction. A Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction as set forth above.

"Price Talk"

Before the start of an Auction, a Broker-Dealer may, in its discretion, make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. A Broker-Dealer may occasionally update and change the Price Talk based on changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm

with their Broker-Dealer the manner by which that Broker-Dealer will communicate Price Talk and any changes to Price Talk.

“All-or-Nothing” Bids

A Broker-Dealer will not accept “all-or-nothing” Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Auction Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes

A Broker-Dealer will provide no assurance as to the outcome of any Auction. A Broker-Dealer also will not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Mode Rate on any Auction Bonds purchased or retained in the Auction may be lower than the market rate for similar investments.

A Broker-Dealer will not agree before an Auction to buy Auction Bonds from or sell Auction Bonds to a customer after an Auction.

Deadlines

Each particular Auction has a formal deadline by which all Bids must be submitted by each Broker-Dealer to the Auction Agent. This deadline is called the “Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline — called the “Broker-Dealer Deadline” — by which Bidders must submit Bids to such Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with each Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. A Broker-Dealer may submit Orders for its own account at any time until the Submission Deadline and may change Orders it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by a Broker-Dealer or generated by a Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition, until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner’s Ability to Resell Auction Rate Securities May Be Limited

An Existing Owner may sell, transfer or dispose of an Auction Bond (i) in an Auction, pursuant only to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Auction Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Auction Bonds in the Auction. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the Auction Bonds subject to such Submitted Sell Orders. As discussed above (see “Bidding by Broker-Dealers”), a Broker-Dealer may submit a Bid in an Auction to avoid a Failed Auction, but no Broker-Dealer is obligated to do so. There may not always be enough Bidders to prevent a Failed Auction in the absence of a Broker-Dealer bidding in the Auction for its own account or encouraging others to bid. Therefore,

Failed Auctions are possible, especially if the Company's or Insurer's credit were to deteriorate, if a market disruption were to occur or if, for any reason, one or more Broker-Dealers were unable or unwilling to bid.

Between Auctions, there can be no assurance that a secondary market for the Auction Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Auction Bonds on the terms or at the times desired by an Existing Owner. A Broker-Dealer may, in its own discretion, decide to buy or sell the Auction Bonds in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above par for the Auction Bonds. However, no Broker-Dealer is obligated to make a market in the Auction Bonds, and may discontinue trading in the Auction Bonds without notice for any reason at any time. Existing Holders who resell between Auctions may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased an Auction Bond through a dealer which is not a Broker-Dealer for the Auction Bonds, such Existing Owner's ability to sell its security may be affected by the continued ability of its dealer to transact trades for the Auction Bonds through a Broker-Dealer.

The ability to resell the Auction Bonds will depend on various factors affecting the market for the Auction Bonds, including news relating to the Company or the Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Auction Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Auction Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in *Securities and Exchange Commission Settlements*, below) or press reports, financial reporting cycles and market conditions generally. Demand for the Auction Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or a Broker-Dealer Could Impact the Ability to Hold Auctions

The Auction Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice (45 days' notice in the event it has not been compensated for its services) to the Company, the Trustee and the Insurer, and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if it has not been compensated. Any resignation or removal of the Auction Agent, other than as described in the immediately preceding sentence with regard to failure to compensate the Auction Agent, will not become effective until a successor Auction Agent has been appointed by the Company and such successor Auction Agent has accepted such position; provided, however, that in the event that a successor Auction Agent has not been appointed within 45 days after the date specified in its notice of resignation, then the Auction Agent may petition a court of competent jurisdiction for a replacement. Each Broker-Dealer Agreement provides that the Broker-Dealer thereunder may be removed by the Auction Agent at the written direction of the Company, or may resign upon five Business Days' notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Auction Bonds will be the interest rate of the preceding Auction Period. If at the end of 35 days there is no duly appointed Auction Agent or Broker-Dealer, then the Auction Mode Rate shall be the Maximum Auction Rate.

Securities and Exchange Commission Settlements

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation against 15 firms, including Morgan Stanley & Co. Incorporated (the "Settling Broker-Dealers") that participate in the auction rate securities market regarding the respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each Settling Broker-Dealer, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of

its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including The Bank of New York (the "Settling Auction Agents"), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC's allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by the Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

Determination Methods

Pursuant to the Indenture, the Bonds may bear interest at a Daily, Flexible, Weekly, Monthly, Quarterly, Semiannual, Multiannual, Fixed or Auction Rate. The Bonds shall initially bear interest at an Auction Rate, or, upon conversion as described above under – *Conversion from Auction Mode*, at another interest rate as provided by the Indenture.

THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH SUCH BONDS CONVERT TO BEAR INTEREST AT INTEREST RATES OTHER THAN AN AUCTION RATE FOR AN AUCTION PERIOD OF 35 DAYS OR LESS.

Security

The Bonds will be special obligations of the Issuer, the principal of and premium, if any, and interest on which will be payable solely from, and secured by a pledge of, the payments to be made by the Company under the Agreement and the Note. The pledge does not extend to funds to which the Trustee is entitled in its own right as fees, reimbursement, indemnity or otherwise. The Bonds will not be secured by a mortgage or security interest in the Project or any other property of the Company.

Tender

Optional Tender

While the Bonds bear interest at an Auction Rate, the owner of a Bond does not have the option to require the purchase of his or her Bonds.

Mandatory Tender

The Bonds are subject to mandatory tender upon 15 days' written notice to each bondholder at a purchase price equal to 100% of the principal amount of Bonds, as the case may be, plus accrued interest, on the effective date of any change in mode, subject to the successful remarketing of such Bonds. The Policy is not available to pay such mandatory tender price. See – *Conversion from Auction Mode* above.

Redemption

The Bonds are subject to redemption as described below:

Optional Redemption. During any Auction Mode, Bonds may be redeemed in whole or in part (and if in part, in an Authorized Denomination) at the option of the Issuer (upon written direction of the Company delivered to the Trustee, the Insurer and Paying Agent) on the Business Day immediately succeeding any Auction Date at a

redemption price equal to the principal amount thereof plus accrued interest to the redemption date provided that after any such optional redemption, there shall not be less than \$10,000,000 in aggregate principal amount of the Bonds in the Auction Mode, unless otherwise consented to by the Broker-Dealer.

Extraordinary Optional Redemption. The Bonds are subject to redemption in whole on the next Interest Payment Date for which notice of redemption can be given, at a redemption price equal to the aggregate principal amount of the outstanding Bonds plus accrued interest thereon to the redemption date, without premium, upon receipt by the Trustee and the Paying Agent of a written notice from the Company stating that any of the following events has occurred within the preceding 270 days and that it intends to exercise its option to effect the redemption of the Bonds as a whole:

- (a) in the reasonable judgment of the Company, unreasonable burdens or excessive liabilities shall have been imposed upon the Issuer or the Company with respect to the Project or the Plant, including, without limitation, (i) the imposition of any income or other taxes not imposed on August 1, 2007 or (ii) the imposition of any ad valorem property or other taxes (other than ad valorem property or other taxes imposed on August 1, 2007 upon similarly assessed property within the same taxing jurisdiction);
- (b) the Project or the Plant shall have been damaged or destroyed to such extent that, in the opinion of the Company, (i) within a period of six consecutive months following such damage or destruction, it is not practicable or desirable to rebuild, repair or restore the same, (ii) the Company will be thereby prevented from carrying on its normal operations of the Project or the Plant for a period of six consecutive months or (iii) the cost of restoration would exceed by \$1,500,000 or more the net proceeds of insurance thereon;
- (c) title to, or temporary use of, all or substantially all of the Project or the Plant shall have been taken under the exercise of the power of eminent domain;
- (d) changes in the economic availability of materials, labor, services, supplies (including fuel), equipment or other property, facilities or things necessary for the operation of the Project or the Plant shall have occurred, or technological, regulatory or other changes shall have occurred, which, in the opinion of the Company, render the continued operation of the Project or the Plant uneconomic;
- (e) any court or administrative body shall enter a judgment, order or decree requiring the Company to cease, or dispose of, all or any substantial part of its operations of the Project or the Plant to such extent that, in the opinion of the Company, it is or will be thereby prevented from carrying on its normal operations of the Project or the Plant for a period of six or more consecutive months;
- (f) as a result of any change in the Constitution of the State of Ohio or the Constitution of the United States of America or of any legislative or administrative action (whether state or federal), or of any final decree, judgment or order of any court or administrative body (whether state or federal), the obligations of the Company under the Agreement shall have become unenforceable or impossible of performance in any material respect in accordance with the intent and purpose of the parties as expressed in the Agreement; or
- (g) following a change in the use of or abandonment of the Project or the Plant or any portion thereof, the Company has been unable after reasonable effort to obtain an opinion of Bond Counsel to the effect that interest on the Bonds remains exempt from federal income tax (other than for Bonds in the hands of a "substantial user" of the Project or a "related person" as those terms are used and defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that if the Company obtains an opinion of Bond Counsel to the effect that, upon redemption of only a portion of such Bonds, interest payable on the remainder of the Bonds would remain exempt from federal income tax (other than for Bonds in the hands of a "substantial user" of the Project or a "related person" as those terms are used and defined in the Code), the Company may redeem the Bonds in such part as necessary to obtain the opinion of Bond Counsel.

Extraordinary Mandatory Redemption. The Bonds are subject to mandatory redemption in whole, or in part at any time if such partial redemption will preserve the exemption from federal income taxation of interest on the remaining outstanding Bonds, at a redemption price equal to the principal amount thereof together with unpaid interest accrued to the date fixed for redemption, and without premium, if (a) a final decree or judgment of any

federal court, in which the Company participates to the extent it deems sufficient, or (b) a final action by the Internal Revenue Service, in proceedings in which the Company participates to the extent it deems sufficient, determines that the interest paid or payable on Bonds to a person, other than, as provided in Section 147(a) of the Code, a "substantial user" of the Project or a "related person", is or was includable in the gross income of the owner thereof for federal income tax purposes under the Code, as a result of the failure by the Company to observe or perform any covenant, condition or agreement on its part to be observed or performed under the Agreement or the inaccuracy of any representation by the Company under the Agreement or receipt by the Company of an opinion of Bond Counsel to such effect obtained by the Company and rendered at the request of the Company; provided, however, that no decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the registered owner involved in such proceeding or action (i) gives the Company and the Paying Agent prompt written notice of the commencement thereof and (ii) if the Company agrees to pay all expenses in connection therewith and to indemnify such registered owner against all liabilities in connection therewith, offers the Company the opportunity to control the defense thereof. Any such redemption shall be made on a date determined by the Paying Agent not more than 180 days after the date of such final decree, judgment or action. The Paying Agent shall give the Issuer, the Trustee and the Company not less than 45 days written notice of such date.

Notice of Redemption. At least 30 days prior to any date fixed for optional redemption of the Bonds, the Company shall give notice of such optional redemption to the Trustee and the Paying Agent. At least 15 days prior to any date fixed for redemption of the Bonds, the Paying Agent shall give notice of any redemption by sending such notice by (i) first-class mail to the owner of each such Bond to be redeemed in whole or in part; (ii) by certified mail, return receipt requested, to DTC (so long as it owns all the Bonds), and upon request, to any person or entities which provide evidence acceptable to the Paying Agent that such person has a legal or beneficial interest in at least \$1,000,000 in principal amount of such Bonds; and (iii) by certified mail, return receipt requested, or by overnight delivery, received by the registered depositories at least two (2) days prior to the general publication date for such redemption notices and to be received by at least two (2) of the national information services that disseminate bond redemption notices on or before the general mailing date for such notices; provided, however, that the failure to send, mail or receive such notice described above, or any defect therein or in the sending or mailing thereof, with respect to such Bonds shall not affect the validity or effectiveness of the proceedings for the redemption of any other Bond. In addition, within sixty (60) days after the redemption date an additional redemption notice shall be sent to any owner of the Bonds being redeemed who has not surrendered Bonds for redemption during the thirty (30) day period following the redemption date and to any person or entities having legal or beneficial ownership interest in at least \$1,000,000 in principal amount of such Bonds which have not been surrendered.

All notices of redemption shall state (i) the redemption date; (ii) the redemption price; (iii) the identification, including complete designation (including series) and issue date of the Bonds and the CUSIP number, certificate number (and in the case of partial redemption, the respective principal amounts), interest rates and maturity dates of the Bonds to be redeemed; (iv) that on the redemption date the redemption price will become due and payable upon each such Bond, and that interest thereon shall cease to accrue from and after said date; and (v) the name and address of the Trustee and the Paying Agent for such Bonds, including the place where such Bonds are to be surrendered for payment of the redemption price therefor. If at the time of mailing of notice of any optional redemption in connection with a refunding of all or a portion of the Bonds the Company shall not have deposited with the Trustee moneys sufficient to redeem all of the Bonds called for redemption, such notice may state that it is conditional in that it is subject to the deposit of the proceeds of refunding bonds with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Partial Redemption. If fewer than all of the Bonds are called for redemption, the Company may designate the principal amount of Bonds in each Mode to be redeemed, and the Bonds to be redeemed in each Mode shall be selected in a fair and equitable manner by the Paying Agent from among all the Bonds then outstanding in such Mode. Each minimum increment of Authorized Denominations represented by any Bond shall be considered a separate Bond for purposes of selecting the Bonds to be redeemed. Bonds representing any unredeemed balance of the principal amount of the Bonds being redeemed shall be issued to the owner thereof without charge therefor.

Book-Entry Only System

DTC 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, as amended (“1934 Act”). DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade 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, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., 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 that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”, and together with Direct Participants, “Participants”). The DTC Rules applicable to DTC and its Participants are on file with the SEC.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each 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, but Beneficial Owners are 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 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued. So long as Cede & Co., as nominee for DTC, is the sole bondholder, the Trustee shall treat Cede & Co. as the only bondholder for all purposes under the Indenture, including receipt of all principal of, premium, if any, and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Indenture.

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such 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.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC’s current 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. will consent or vote with respect to the Bonds, unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.’s consenting or

voting rights to those Direct Participants to whose accounts the Bonds are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the 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 detailed information from the Issuer or the Trustee, on the payable 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 Participants and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal premium, if any, and interest payments to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Issuer or the Trustee, 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated bonds will be required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). Upon receipt of a withdrawal request from an issuer, DTC will take the following actions: (1) DTC will issue an important notice notifying its Participants of the receipt of a withdrawal request from the issuer reminding Participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC, and (2) DTC will process withdrawal requests submitted by Participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from an issuer. In that event, security certificates will be printed and delivered to DTC.

In the event that the book-entry system is discontinued, the principal or redemption price of and interest on the Bonds will be payable in the manner described above, and the Bonds may be transferred or exchanged for one or more Bonds in different Authorized Denominations upon surrender thereof at the principal corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the registration books and shall authenticate and deliver the Bonds appropriately registered and in appropriate Authorized Denominations.

Under the Indenture, payments made by the Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Indenture and the Company's obligations under the Agreement to the extent of the payments so made. Beneficial Owners will not be, and will not be considered by the Issuer or the Trustee to be, and will not have any rights as, owners of Bonds under the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Underwriters, the Company and the Trustee believe to be reliable, but the Underwriters, the Company and the Trustee take no responsibility for the accuracy thereof.

None of the Issuer, the Underwriters, the Company, the Insurer, the Trustee or any agent for payment on or registration of transfer or exchange of any Bond will have any responsibility or obligation to Direct Participants, Indirect Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants, or beneficial owners or other action taken by DTC, or its nominee, Cede & Co., as the sole owners of the Bonds.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix C for the form of the Policy. The Issuer, the Company and the Underwriters make no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

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* and in Appendix C. Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Policy

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of and interest on, the 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 a mandatory redemption upon the occurrence of a determination of taxability), the payments guaranteed by the 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, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 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 Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than a mandatory redemption upon the occurrence of a determination of taxability); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 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 Paying Agent or any owner of a 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 Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the 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 Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying 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 "Parent"). The Parent 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, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of the Insurer are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, the Insurer is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for the Insurer, limits the classes and concentrations of investments that are made by the Insurer and requires the approval of policy rates and forms that are employed by the Insurer. State law also regulates the amount of both the aggregate and individual risks that may be insured by the Insurer, the payment of dividends by the Insurer, changes in control with respect to the Insurer and transactions among the Insurer and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of the Insurer

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

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

Fitch Ratings, Inc. 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 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 Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Insurer Financial Information

For information concerning the Insurer, see the consolidated financial statements of the Insurer and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Parent for the year ended December 31, 2006, and the consolidated financial statements of the Parent and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 included in the Quarterly Report on Form 10-Q of the Parent for the period ended June 30, 2007 which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by the Insurer with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to the Insurer at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed with the SEC by the Parent pursuant to the 1934 Act are incorporated by reference in this Official Statement:

- The Parent's Annual Report on Form 10-K for the year ended December 31, 2006; and
- The Parent's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007.

Any documents, including any financial statements of the Insurer and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Parent pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act after the date of the Company's most recent Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. 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 Parent files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Parent's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Parent's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) 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 Parent's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to the Insurer at its principal executive offices.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

Insurance Agreement

On the date of original issuance of the Bonds, the Companies will enter into an Insurance Agreement with the Insurer (the "Insurance Agreement") and will make certain covenants and agreements therein. The Insurance Agreement will require, among other things, (i) the payment of annual premiums to the Insurer in respect of the Policy; (ii) the reimbursement of any amount paid by the Insurer pursuant to the Policy; (iii) a negative pledge prohibiting the issuance or existence of certain additional secured debt beyond agreed-to amounts unless the Bonds are secured simultaneously; (iv) a covenant of the Companies that the Bonds will always remain the primary obligation of a company engaged in the regulated distribution of electricity; and (v) the maintenance of a liquidity facility acceptable to the Insurer upon conversion of the Bonds to another interest rate mode. The Insurance Agreement will provide that if amounts due to the Insurer are not paid, representations and warranties of any of the Companies shall be false, certain events of bankruptcy of any of the Companies occur, any of the Companies fails to perform or observe certain covenants and agreements described and contained in the Insurance Agreement or an event of default occurs under the Indenture or the Agreement, subject, in certain cases, to specified grace periods, then any such event will constitute an event of default under the Insurance Agreement. An event of default under the Insurance Agreement shall constitute an Event of Default under the Agreement as further described under the heading *THE AGREEMENT – Events of Default*.

THE AGREEMENT

In addition to the description of certain provisions of the Agreement contained elsewhere herein, the following is a brief summary of certain provisions of the Agreement and does not purport to be comprehensive or

definitive. All references herein to the Agreement are qualified in their entirety by reference to the Agreement for the detailed provisions thereof.

Use of Bond Proceeds; Construction of the Project

The Issuer will issue the Bonds and loan proceeds of the sale thereof to the Company, which proceeds will be applied as described under *USE OF PROCEEDS* herein. The Company agrees to cause the Project to be acquired, constructed, installed and improved substantially in accordance with the plans and specifications as provided in the Agreement.

In the Indenture, the Issuer directs the Trustee to make payments from the Construction Fund to pay the cost of the Project and issuance expenses, and to reimburse the Company for any cost of the Project and issuance expenses paid or incurred by the Company. The Agreement provides that if the Company should pay any excess cost of the Project, it shall not be entitled to any diminution of the amounts payable by it under the Note and the Agreement.

Repayment of Loan

In order to evidence the Loan and the Company's obligation to repay the same, the Company will issue the Note in the same principal amount as the Bonds and having the same stated maturity and interest rate or rates. Pursuant to the Note, the Company will pay to the Trustee, as assignee of the Issuer, amounts to fund payments on the Bonds in such amounts which, together with other moneys available therefor in the Bond Fund or the Bond Purchase Funds created under the Indenture, will be sufficient to pay when due the principal of, premium, if any, and interest on and Purchase Price for the outstanding Bonds as they shall mature, be redeemed, be purchased or deemed purchased or otherwise become due as provided in the Indenture.

The payment obligations of the Company under the Note will be absolute and unconditional, and the Company will make such payments free of any deductions and without abatement, diminution or setoff. In the event that the Company fails to make any such payments, the payment so in default will continue as an obligation of the Company until the amount in default has been fully paid.

Other Payments Under The Agreement

In addition to the payments under the Note, the Company agrees to pay taxes, assessments and other charges of any kind whatsoever that may at any time be lawfully levied or imposed with respect to the Project or the payments under the Note and all costs and expenses of the operations and maintenance of the Project. The Company also agrees to pay certain costs and expenses of the Issuer and the Trustee in connection with the Bonds and to indemnify such parties against certain liabilities arising in connection with the sale of the Bonds and the execution and delivery of the related bond documents.

Pledge

The Issuer will assign to the Trustee a security interest in all rights, title and interest in, to and under the Note and the Agreement and all amounts payable thereunder (except for certain payments under the Agreement in respect of indemnification and certain fees and expenses). The Company will assent to such assignment and will agree that, as to the Trustee, its obligation to make payments will be absolute and not subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Issuer or the Trustee of any obligation to the Company.

Corporate Existence

The Company shall maintain its legal existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided that the Company may, without violating the Agreement, (a) consolidate with or merge into another domestic entity (i.e., an entity organized and existing under the laws of one

of the states of the United States of America, the District of Columbia or under the laws of the United States of America) or permit one or more other such entities to consolidate with or merge into it; or (b) sell or otherwise transfer, to another such entity, all or substantially all of its assets, and, if it so elects, thereafter dissolve; provided, in each of (a) and (b), that such surviving, resulting or transferee entity shall have irrevocably and unconditionally assumed the due and prompt performance of all of the obligations of the Company under the Agreement and the Note in the manner described under *Assumption* below.

Environmental Compliance

In the Agreement, the Company will represent that the Project will be constructed in compliance with all permits, variances and orders issued or granted by the Ohio Environmental Protection Agency with respect to the Project, including any permits to install for the Project, and any such permits, variances and orders have not been withdrawn or otherwise suspended. The Company will represent that it believes that it is in material compliance with all terms and provisions of all permits, variances and orders heretofore issued or granted by the Ohio Environmental Protection Agency with respect to the Plants and its other facilities within the State of Ohio, including any permits-to-install and permits-to-operate issued with respect thereto. Some generating units in which the Company has an ownership interest are the subject of litigation with respect to alleged violations of Clean Air Act requirements. See the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 incorporated by reference in *Appendix A to this Official Statement*.

Assignment

The Company may assign its interest in, or any rights and obligations under, the Agreement (a) to another entity provided that the Company, under the terms of any such assignment, shall remain and be primarily responsible and liable for all of its obligations under the Agreement and the Note, including particularly the making of all payments required thereunder, when due if the entity to which an interest in the Agreement is assigned fails to perform such obligations; or (b) to one or more other entities in connection with a transaction permitted under the terms of the Agreement as described in *Corporate Existence* above.

Assumption

Any irrevocable, unconditional assumption of the due and prompt performance of all of the obligations of the Company under the Agreement by an entity or entities (collectively, the "Assignee") permitted under the Agreement ("Assumption") shall be evidenced by an instrument delivered concurrently with such assumption to the Issuer, the Paying Agent and the Trustee. If a transaction occurs pursuant to and as permitted by the Agreement in which the Company, either alone or collectively with other entities, is not the Assignee, the Company shall be relieved of liability under the Agreement. If an Assumption occurs, the Assignee shall be and act as the Company for all purposes of the Agreement.

Defaults and Remedies

The Agreement provides that the occurrence and continuation of any one of the following shall constitute an "Event of Default" thereunder:

- (a) failure by the Company to pay the Note with respect to principal of or premium on any Bond at the times specified therein;
- (b) failure by the Company to pay the Note with respect to interest on any Bond at the times specified therein;
- (c) failure by the Company to pay the Note with respect to the Purchase Price of any Bond at the times specified therein and the continuation of such failure for a period of one Business Day or more;

(d) failure by the Company to observe and perform any covenant, condition or agreement on its part required to be observed or performed in the Agreement, other than as referred to in (a), (b) or (c) above, for a period of 90 days after receipt by the Company of written notice specifying such failure and requesting that it be remedied, given to the Company by the Issuer or the Trustee, unless the Issuer and the Trustee (with the requisite bondholder consent and consent of the Insurer) shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice can, in the reasonable judgment of the Company, be corrected but cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within the applicable period and diligently pursued until the default is corrected;

(e) certain events of dissolution, liquidation, insolvency, bankruptcy or reorganization involving the Company;

(f) an "Event of Default" has occurred and is continuing under the Indenture; or

(g) an "Event of Default" (as defined in the Insurance Agreement) has occurred and is continuing under the Insurance Agreement. See *BOND INSURANCE – Insurance Agreement* for more information.

The provisions of paragraph (d) above are subject to the following limitations: if by reason of acts of God, strikes, lockouts or other industrial disturbances; acts of public enemies; orders or regulations of any kind of the government of the United States of America or of the State of Ohio or any of their departments, agencies, political subdivisions, or officials, or any civil or military authority; insurrections; riots, epidemics; landslides; lightning; earthquakes; tidal waves; fires; hurricanes; tornadoes; other storms; floods; washouts; droughts; arrests; restraints of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes, transmission facilities or canals; partial or entire failure of utilities; shortages of labor, material, supplies or transportation; or any other cause or event not reasonably within the control of the Company (collectively, "events of force majeure"), the Company is unable in whole or in part to carry out the agreements on the Company's part contained in the Agreement, the Company shall not be deemed in default during the continuance of such inability. The Company, however, will use its best efforts to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out such agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall 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 Company, unfavorable to the Company. The occurrence of any event of force majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, any obligation under the Agreement or the Note to the extent that the failure of the Company to observe or perform any such obligation would result in the failure to pay when due the principal of, premium, if any, and interest on, or the Purchase Price of, the Bonds or would result in the interest on Bonds becoming includable in the gross income of the owners thereof, for federal income tax purposes.

The above provisions, however, are subject to the conditions that, after any such Event of Default under the Agreement, subject to and as provided in the Indenture, the Trustee, with the requisite bondholder consent, will waive such Event of Default and rescind and annul any remedial step theretofore taken by it or by the Issuer with respect to such default and its consequences; but no such waiver, rescission or annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Whenever any Event of Default under the Agreement shall have occurred and is continuing, the Issuer, with the written consent of the Trustee and the Insurer, or the Trustee, with the written consent of the Insurer, may take any one or more of the following remedial steps, and at the written instruction of the Insurer, the Trustee shall take one or more of such steps:

(a) by notice in writing to the Company, declare the unpaid payments on the Note to be due and payable immediately, if concurrently with or prior to such notice the unpaid principal amount of the Bonds has been declared to be due and payable under the Indenture, and upon any such declaration the payments payable on the Note shall become and shall be immediately due and payable in the amount equal to the principal of and all accrued interest on the Bonds (without premium); provided, however, that an Event of Default shall be deemed waived and a declaration accelerating payment of unpaid payments on the Note payable under the Agreement shall be deemed

rescinded without further action on the part of the Trustee or the Issuer upon any rescission by the Trustee of the corresponding declaration of acceleration of the Bonds under the Indenture;

(b) whatever action at law or in equity may appear necessary or desirable to collect the payment and other amounts then due or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Agreement or the Note;

The Company has covenanted that, in case an Event of Default shall occur with respect to the payment on the Note then payable, upon demand of the Trustee or the Insurer, the Company will pay the whole amount that then shall have become due and payable, with interest (to the extent permitted by law) on such amount, at the rate of interest borne by the Bonds at the time of such failure, from the due date thereof until paid.

In case the Company shall fail to pay such amounts upon such demand, the Trustee shall, with the written consent or at the written direction of the Insurer, be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company and collect, in the manner provided by law out of the property of the Company, the moneys adjudged or decreed to be payable.

Certain Covenants Regarding Arbitrage and Tax Exemption

The Issuer and the Company have agreed not to knowingly take any action or omit to take any action, which would result in a loss of the exemption from federal income taxation of interest on the Bonds by virtue of the Bonds being considered "arbitrage bonds" within the meaning of Section 148 of the Code.

The Issuer and the Company have agreed that they will not take any action, cause any action to be taken, omit to take any action or cause any omission to occur which would cause the interest on the Bonds to become includable in gross income of the recipients thereof for purposes of federal income taxation.

Amendment of Agreement

The Issuer and the Company may, in accordance with the Indenture and subject to the Insurer's rights under the Indenture and the Agreement, without the consent of, or notice to, the bondholders, enter into an amendment to the Agreement, for any one or more of the following purposes:

(i) to cure any ambiguity, formal defect or omission in the Agreement or to make such other changes which shall not have a material adverse effect upon the interests of the bondholders;

(ii) to grant to or confer upon the Trustee, for the benefit of the bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the owners or the Trustee;

(iii) to subject to the Indenture additional revenues, properties or collateral;

(iv) to add to the covenants and agreements of the Issuer contained in the Agreement other covenants and agreements thereafter to be observed for the protection of the bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;

(v) effective upon any Conversion Date, to make any amendment affecting only the Bonds being converted;

(vi) to add provisions relating to the partial conversion of Bonds to a new Mode;

(vii) to conform to the requirements of any Rating Agency;

(viii) to add or modify provisions permitting a mandatory tender of Bonds in lieu of redemption;

- (ix) to add provisions permitting the addition of a credit facility or liquidity facility;
- (x) to make any change related to the Bonds that does not materially adversely affect the rights of any bondholder; and
- (xi) to implement any succession to or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Subject to certain terms and provisions of the Indenture, and exclusive of the purposes described in subparagraphs (i) through (xi) above, the owners of a majority in aggregate principal amount of the Bonds then outstanding, with the written consent of the Insurer, will have the right, from time to time, to approve amendments deemed necessary and desirable by the Issuer and the Company for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Agreement, as it may be amended from time to time. The written consent of the Insurer shall be required for any amendment to the Agreement, including those described above.

Certain Rights of the Insurer

Notwithstanding any other provision of the Agreement, upon the occurrence of an Event of Default thereunder and so long as the Insurer is not in default under the Policy, then, in all such events, the Insurer shall be deemed to be the sole owner of the Bonds when the approval, consent, direction or any other action of the owners of such Bonds is required or may be exercised under the Agreement, including, without limitation, (i) the right to control and direct the declaration of principal of and accrued interest on all amounts then outstanding under the Agreement to be due and payable immediately as described above, and (ii) the right to rescind and annul any such declaration and the consequences of such declaration or to waive an Event of Default thereunder. So long as the Policy is in full force and effect and the Insurer is not in default thereunder, the Insurer shall also be deemed to be the sole holder of the Bonds, for purposes of giving consent to the execution of any amendment to the Agreement and for the initiation or approval of any other action that requires the consent of or any action by the holders of the Bonds under the Agreement.

THE INDENTURE

In addition to the description of certain provisions of the Indenture contained elsewhere herein, the following is a brief summary of certain provisions of the Indenture and does not purport to be comprehensive or definitive. All references herein to the Indenture are qualified in their entirety by reference to the Indenture for the detailed provisions thereof.

Pledge and Security

To secure the payment of its Bonds, the Issuer assigns to the Trustee and grants to the Trustee a security interest in all right, title and interest of the Issuer in, to and under the Note and all payments made and to be made thereunder. As security for the satisfaction of any other obligation assumed by it in connection with the Bonds, the Issuer assigns to the Trustee and grants to the Trustee a security interest in all right, title and interest of the Issuer in, to and under the Agreement and all moneys receivable thereunder, but excluding the rights of the Issuer to indemnification and reimbursement of fees, expenses and expenses of collection.

Construction Fund

The Indenture creates and establishes with the Trustee a separate fund designated the "Ohio Air Quality Development Authority Air Quality Revenue Bonds (Columbus Southern Power Company Project), Series 2007A, Construction Fund" (the "Construction Fund"). The proceeds from the sale of the Bonds will be deposited in the Construction Fund. Such proceeds and any other moneys deposited in the Construction Fund shall be applied to the payment of the cost of financing the acquisition, construction, installation and equipping of the Project, including issuance expenses. See *THE AGREEMENT-Use of Bond Proceeds; Construction of the Project* above.

When the Project shall have been completed and the Trustee shall have received a certificate of an Authorized Representative of the Company, any moneys remaining in the Construction Fund in excess of the amount to be reserved for payment of unpaid items of the cost of the Project, shall be used by the Trustee at the direction of the Company (i) if the Bonds are then subject to redemption or will be subject to redemption within 90 days of the date the Project was placed in service, to redeem outstanding Bonds at the earliest possible redemption date within such 90-day period in accordance with Treasury Regulation Section 1.142-2(c), (ii) if such Bonds are not subject to redemption within such 90-day period, to establish a defeasance escrow in accordance with Treasury Regulation Section 1.142-2(c) or (iii) for any other purposes which, in the opinion of nationally recognized counsel experienced on the subject of municipal bonds and acceptable to the Trustee, is permissible under then applicable Ohio law and will not under the Code cause the interest on the Bonds to be included in gross income for federal income tax purposes; provided that amounts approved by the Company shall be retained by the Trustee in the Construction Fund for payment of any cost of the Project not then due and payable or which is in dispute, and any balance remaining of such retained funds after full payment of the cost of the Project shall be held and applied, or used as directed by the Company, in the manner specified in this paragraph.

Bond Fund

The Indenture creates and establishes with the Trustee a trust fund designated the "Ohio Air Quality Development Authority, Air Quality Revenue Bonds (Columbus Southern Power Company Project), Series 2007A Bond Fund" ("Bond Fund"), which will be used solely for the payment of the principal of, premium, if any, and interest on the Bonds. All payments on the Note made by the Company in connection with principal of, premium, if any, and interest on the Bonds will be made to the Trustee for deposit in the Bond Fund. There shall be deposited into the Bond Fund, when received: (i) all payments specified in the Agreement (except for certain payments of fees, expenses, and indemnification arising out of the Issuer's Unassigned Rights (as defined in the Agreement)); (ii) all moneys required to be so deposited in connection with any redemption of the Bonds; (iii) any amounts directed to be transferred into the Bond Fund pursuant to any provision of the Indenture, and (iv) all other moneys when received by the Trustee which are required to be deposited in the Bond Fund or which are accompanied by directions that such moneys are to be paid into the Bond Fund.

Moneys held in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds on the dates due for the payment of redemption thereof. The Issuer has authorized and directed the Trustee to withdraw sufficient funds from the Bond Fund to transfer to the Paying Agent to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable, which authorization and direction the Trustee has accepted.

Bond Purchase Fund

The Indenture creates and establishes with the Paying Agent a separate fund designated the "Bond Purchase Fund" (the "Bond Purchase Fund"). The Bond Purchase Fund shall consist of two sub-accounts to be designated respectively the "Remarketing Account" and the "Company Purchase Account". Proceeds from the remarketing of tendered Bonds will be deposited by the Paying Agent, when and as received from the Remarketing Agent, into the Remarketing Account. Payments on the Note with respect to the Purchase Price of the Bonds are to be deposited by the Paying Agent by and on behalf of the Company in the Company Purchase Account.

The Paying Agent shall disburse funds from the Remarketing Account to pay the Purchase Price of Bonds properly tendered for purchase upon surrender of such Bonds. The Paying Agent shall disburse funds from the Company Purchase Account to pay the Purchase Price of Bonds properly tendered for purchase upon surrender of such Bonds.

Investment

Except as provided in the Indenture, any moneys held as part of the Construction Fund or the Bond Fund shall be invested or reinvested by the Trustee as provided in written instructions of the Company solely in Permitted Investments. Moneys held as part of the Bond Purchase Fund are to be held uninvested.

Moneys Held in Trust

All moneys required to be deposited with or paid to the Trustee for the account of any fund under the Indenture shall be held by the Trustee in trust and, except for (i) moneys in the Bond Purchase Fund, and (ii) moneys deposited with or paid to the Trustee for the redemption of Bonds, notice of the redemption for which has been duly given, shall, while held by the Trustee, be part of the trust estate and be subject to the security interest created by the Indenture.

Certain Rights of the Insurer

The Indenture provides that notwithstanding any other provision of the Indenture, upon the occurrence of an Event of Default (as defined below) and so long as the Insurer is not in default under the Policy, then, in all such events, the Insurer shall be deemed to be the sole owner of the Bonds when the approval, consent, direction or any other action of the owners of such Bonds is required or may be exercised under the Indenture, including, without limitation, (i) the right to control and direct the declaration of principal of and accrued interest on all such Bonds then outstanding to be due and payable immediately as described below, and (ii) the right to annul any such declaration and the consequences of such declaration or to approve any waivers of an Event of Default thereunder. So long as the Policy is in full force and effect and the Insurer is not in default thereunder, the Insurer shall also be deemed to be the sole holder of the Bonds, for purposes of giving consent to the execution of Supplemental Indentures and for the initiation or approval of any other action that requires the consent of or any action by the holders of the Bonds.

Events of Default and Remedies

The Indenture provides that each of the following constitutes an “Event of Default” thereunder:

- (a) default in the due and punctual payment of the principal of or premium, if any, on any outstanding Bond, as the same shall become due and payable, whether at the stated maturity thereof, upon any proceedings for redemption, or upon the maturity thereof by declaration of acceleration, with no effect given to payments made under the Policy;
- (b) default in the due and punctual payment of the interest on any outstanding Bond, as the same shall become due and payable, with no effect given to payments made under the Policy;
- (c) default in the due and punctual payment of the Purchase Price of any outstanding Bond, as the same shall become due and payable and the continuation of such default for a period of one Business Day or more;
- (d) default by the Issuer in its performance or observance of any of the other covenants, agreements or conditions contained in the Indenture, and the continuation thereof without corrective action for a period of 90 days after receipt by the Issuer and the Company of notice given by the Trustee, the Insurer or the owners of not less than 25% in aggregate principal amount of all Bonds outstanding as specified in the Indenture; or
- (e) an “Event of Default” (as defined in the Agreement) has occurred and is continuing under the Agreement.

If any Event of Default occurs and is continuing, the Trustee, with the written consent of the Insurer, may, and upon written request of the Insurer or the owners of at least 25% in principal amount of all Bonds then outstanding, with the written consent of the Insurer, shall, by notice in writing to the Issuer and the Company, declare the principal of all Bonds then outstanding to be immediately due and payable, and upon such declaration the said principal, together with interest accrued thereon to the date of acceleration, shall become due and payable immediately at the place of payment provided therein, anything in the Indenture or in the Bonds to the contrary notwithstanding. Upon the occurrence of any such acceleration, the Trustee shall immediately declare all payments under the Agreement to be due and payable immediately.

If, after the principal of the Bonds has become due and payable, all arrears of interest upon those Bonds are paid by the Issuer, and the Issuer also performs all other things in respect to which it may have been in default under the Indenture and pays the reasonable charges of the Trustee and the bondholders, including reasonable and necessary attorneys' fees, then, and in every such case, the Insurer or the owners of a majority in principal amount of the Bonds then outstanding with the consent of the Insurer, by notice to the Issuer and to the Trustee, may annul such acceleration and its consequences. No such annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon.

Upon the occurrence of an Event of Default, subject to the rights of the Insurer under the Indenture, the Trustee may pursue any available remedy by suit at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Bonds then outstanding, and the performance by the Issuer of its obligations under the Indenture, including, without limitation, the following: (a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the bondholders and require the Issuer to carry out its obligations under the Indenture and the Act; (b) bring suit upon the Bonds; (c) by action, suit or proceeding at law or in equity, require the Issuer to account as if it were the trustee of an express trust for the bondholders; and (d) by action, suit or proceeding at law or in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the bondholders.

Defeasance

Any Bond (other than a Bond in the Daily or Weekly Mode) shall be deemed to have been paid and discharged when (i) payment of the principal of and premium, if any, on such Bond plus the interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the Indenture or otherwise) or, in the case of Bonds that are in the Flexible, Monthly, Quarterly, Semiannual or Multiannual Mode, to the date next following on which such Bond is required to be tendered for purchase, either (a) shall have been made in accordance with the terms of the Indenture, or (b) shall have been provided for by irrevocably depositing with the Trustee (which shall irrevocably set aside such deposit exclusively for payment), in trust solely for such payment, any combination of (1) sufficient moneys provided by the Company to make such payment and/or (2) Government Obligations acquired with moneys provided by the Company not subject to redemption or prepayment and maturing as to principal and interest in such amounts and at such times as will in the opinion of an independent certified public accountant delivered to the Trustee be sufficient to make such payment without reinvestment (and there shall be no reinvestment); (ii) all necessary and proper fees and expenses of the Trustee and the Paying Agent pertaining to the Bonds shall have been paid or, to the satisfaction of the Trustee and the Paying Agent, provided for; (iii) the Trustee shall have received in form satisfactory to it irrevocable instructions from an authorized representative of the Company to redeem such Bonds on the date next following on which such Bonds are required to be, or may at the option of the owner be, tendered for purchase and either evidence that all redemption notices required by the Indenture have been given or irrevocable instructions to the Trustee to give such redemption notices has been given; and (iv) there shall have been delivered to the Trustee and the Issuer an opinion of Bond Counsel to the effect that the deposit of such moneys will not adversely affect the excludability from gross income for purposes of federal income taxation of interest on any of the Bonds.

Discharge of Lien

When all of the Bonds have been paid or deemed paid and the Issuer is not in default under any of the covenants and promises contained in the Bonds and the Indenture, and if the Issuer shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the Indenture or the Bonds and the Agreement, then the rights under the Indenture will become null and void; provided, however, that the rights of the Trustee under the Indenture to receive its fees, charges and expenses shall survive the discharge of the Indenture until paid in full. See the caption *Defeasance* above for a discussion of the conditions under which the Bonds will be deemed to have been paid.

No Personal Liability of Issuer's Officials

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than that person's official capacity. No official of the Issuer executing the Bonds, the Indenture, the Agreement or amendment or supplement thereto will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance or execution thereof.

The Trustee; New York Paying Agent

To the extent permitted by law, the Trustee may invest in and treat itself as any other holder of the Bonds. The Trustee may resign under the Indenture at any time after notice to the Issuer, the Company, the Insurer, the Paying Agent and the bondholders, such resignation to take effect only upon the appointment of a successor Trustee. The Trustee may be removed under the Indenture at any time by written notice signed by the Company and delivered to the Trustee, the Paying Agent and the bondholders. Such removal shall take effect only upon the appointment of a successor Trustee. The Trustee also may be removed at any time, at the request of the Insurer, for any breach of its obligations set forth in the Indenture. Every successor Trustee may be appointed by the Issuer with the consent of the Company and the Insurer and shall be a bank or trust company which (i) is organized as a corporation or banking association and doing business under the laws of the United States of America or any state thereof; (ii) is authorized under such laws to exercise corporate trust powers and to perform all the duties imposed upon it by the Indenture and the Agreement; (iii) is subject to supervision or examination by federal or state authority; (iv) has combined capital and surplus of at least \$75,000,000; (v) shall not have become incapable of acting or have been adjudged a bankrupt or an insolvent or have had a receiver appointed for itself or for any of its property or have had a public officer take charge or control of it or its property or affairs for the purpose of rehabilitation, conservation or liquidation; and (vi) is an institution rated or its holding company is rated at least "Baa3" by Moody's (or Moody's shall have provided written evidence that such successor Trustee is otherwise acceptable to Moody's) if the Bonds are then rated by Moody's, and at least "BBB-" or "A-3" by S&P (or S&P shall have provided written evidence that such successor Trustee is otherwise acceptable to S&P) if the Bonds are then rated by S&P. Should the Trustee cease to be eligible to act as trustee under the Indenture, it shall promptly notify the owners of all Bonds then outstanding, the Issuer, the Paying Agent and the Company of such fact. The Issuer may appoint a temporary trustee until the appointment of such successor.

The Paying Agent is required to maintain an office, or have an agent with an office, in New York City at all times that Bonds are outstanding.

Additional Notices

Upon written request of any owner of Bonds in an aggregate principal amount of at least \$1,000,000 (or any person or entity which provides written evidence acceptable to the Trustee and the Paying Agent that such person or entity has a legal or beneficial interest in Bonds in an aggregate principal amount of at least \$1,000,000), the Trustee or the Paying Agent, as appropriate, shall give an additional copy of any notice to be given by the Trustee or the Paying Agent, as appropriate, under the Indenture by first-class mail to a second address specified by such owner, person or entity. Any such additional notices shall be given simultaneously with the original notices.

Upon written request of any person or entity which provides evidence acceptable to the Trustee and the Paying Agent, as appropriate, that such person or entity has a legal or beneficial interest in at least \$1,000,000 in principal amount of Bonds, the Trustee or the Paying Agent, as appropriate, shall for the calendar year in which such request is received, provide one or more of the following as requested to such person or entity: (i) notices of redemption; (ii) notices of default; (iii) copies of all notices to which such person or entity is entitled under the Indenture to a specific second address; and (iv) outstanding balances by maturity, redemption history, including redemption date, amount and source of funds and distribution of the call to maturity.

Supplemental Indentures

The Issuer and the Trustee, with the written consent of the Company and the Insurer, but without the consent of or notice to the bondholders, may enter into an indenture or indentures supplemental to the Indenture, for any of the following purposes:

- (a) to cure any ambiguity, formal defect or omission in the Indenture or to make such other changes which shall not have a material adverse effect upon the interests of the bondholders;
- (b) to grant to or confer upon the Trustee, for the benefit of the bondholders, any additional rights, remedies, powers or authorities, or any additional security, that may lawfully be granted to or conferred upon the bondholders or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture, or any indenture supplemental thereto, in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended ("Trust Indenture Act") or any similar federal statute hereafter in effect, or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States and, if the Issuer so determines, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by the Trust Indenture Act or any similar federal statute;
- (e) to add to the covenants and agreements of the Issuer contained in the Indenture other covenants and agreements thereafter to be observed for the protection of the bondholders or to surrender or limit any right, power or authority therein reserved to or conferred upon the Issuer;
- (f) effective upon any Conversion Date, to make any amendment affecting only the Bonds being converted, including, without limitation, amendments relating to assignment of the Company's obligations under the Agreement and release of the Company with respect to liability therefor;
- (g) to add provisions relating to the partial conversion of Bonds to a new Mode;
- (h) to conform the Indenture to the requirements of any rating agency;
- (i) to add or modify provisions permitting a mandatory tender of Bonds in lieu of redemption;
- (j) to add provisions permitting the addition of a credit facility or a liquidity facility;
- (k) to make any change related to the Bonds that does not materially adversely affect the rights of any owner of any Bond; and
- (l) to implement any succession or assignment by the Company in accordance with the provisions of the Indenture and the Agreement.

Exclusive of the purposes described in subparagraphs (a) through (l) above, the owners of a majority in aggregate principal amount of the Bonds then outstanding will have the right, from time to time, with the consent of the Insurer, to approve any supplemental indenture deemed necessary and desirable by the Issuer for the purposes of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture or any supplemental indenture. No modification or alteration may be made without the consent of the holders of all Bonds then outstanding and affected which permits (i) an extension of the maturity of the principal of, or the time for payment of any redemption premium or interest on, any Bond or a reduction in the principal amount of any Bond, or the rate of interest or redemption premium thereon, or a reduction in the amount of, or extension of the time of any payment required by, any Bond; (ii) a privilege or priority of any Bond over any other Bond (except as provided in the Indenture); (iii) a reduction in the aggregate principal amount of the Bonds required for consent to

such a supplemental indenture; (iv) the deprivation of the owner of any Bond then outstanding of the lien created by the Indenture; or (v) the amendment of the limitations described in this paragraph.

The provisions of the Indenture relating to the Auction Procedures may be amended as described under *THE BONDS – Amendment of Auction Procedures*.

UNDERWRITING

Subject to the terms and conditions set forth in a Bond Purchase Agreement (“Purchase Agreement”) to be entered into between the Issuer and the Underwriters, the Underwriters have agreed to purchase the Bonds at a purchase price of 100% of the principal amount thereof. Under the terms and conditions of the Purchase Agreement, the Underwriters are committed to take and pay for all of the Bonds if any are taken. The Company has agreed to pay the Underwriters \$155,750 as compensation and to reimburse the Underwriters for their reasonable expenses.

The Issuer has been advised by the Underwriters that the Bonds may be offered and sold to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price set forth on the cover page of this Official Statement. After the Bonds are released for sale to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

In connection with this offering and in compliance with applicable law and industry practice, the Underwriters may overallocate or effect transactions which stabilize, maintain or otherwise affect the market price of the Bonds at levels above those which might otherwise prevail in the open market, including by entering stabilizing bids. A stabilizing bid means the placing of a bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security. In general, purchases of a security for the purpose of stabilization could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither the Issuer, the Company nor either of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Company nor either of the Underwriters makes any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Pursuant to an Inducement Letter, the Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including liabilities under the federal securities laws, or contribute to payments that the Underwriters or the Issuer may be required to make in respect thereof.

The Underwriters and/or certain of their affiliates may engage in transactions with, and from time to time have performed services for, the Company in the ordinary course of business.

CONTINUING DISCLOSURE AGREEMENT

The Company will agree to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 (“Rule”) under the 1934 Act. Any holder of an outstanding Bond, directly or through the Trustee, may specifically enforce the Company’s disclosure obligations, but any breach by the Company of this undertaking pursuant to the Rule will not constitute an Event of Default under the Agreement or the Indenture.

TAX EXEMPTION

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any Bond for any period during which it is held by a “substantial user” or a “related person” as those terms are used in Section 147(a) of the Code; (ii) interest on the Bonds is an item of tax preference for purposes of Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations; and (iii) interest on the Bonds and any profit made on their sale, exchange or other disposition are exempt from the Ohio

personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer and the Company contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Issuer's and the Company's certifications and representations or the continuing compliance with the Issuer's and the Company's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Issuer or the Company may cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Company and the Issuer have each covenanted to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market prices of the Bonds.

Interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress, and legislation affecting the exemption of interest or other income thereon for purposes of taxation by Ohio may be considered by the Ohio legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest or other income on the Bonds or the market value of the Bonds.

On May 21, 2007, the United States Supreme Court agreed to hear *Dep't of Revenue of Kentucky v. Davis*. In the *Davis* case, the Kentucky Court of Appeals held that Kentucky's exemption from taxation of interest on bonds issued by Kentucky or its political subdivisions and its taxation of interest on bonds issued by other states or their political subdivisions violates the Commerce Clause of the United States Constitution. Ohio exempts from taxation interest on bonds issued by Ohio or its political subdivisions and taxes interest on bonds issued by other states or their political subdivisions. It is not possible to predict how the United States Supreme Court will decide the *Davis* case or to predict any change in Ohio law that would be occasioned by the United States Supreme Court's affirmance

of the *Davis* decision, nor is it possible to predict the effect, if any, of that affirmance or any change in Ohio law on the tax status of interest or other income on the Bonds for Ohio tax purposes or on the market value of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding pending or proposed federal and Ohio tax legislation, the *Davis* case and other court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the price indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Company or the beneficial owners regarding the tax status of interest on the Bonds in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market prices for the Bonds.

LEGAL MATTERS

Certain legal matters relating to the authorization and validity of the Bonds will be subject to the approving opinion of Squire, Sanders & Dempsey LLP, Cleveland, Ohio, Bond Counsel, which will be furnished at the expense of the Company upon delivery of the Bonds, in substantially the form set forth as Appendix B (the "Bond Opinion"). The Bond Opinion will be limited to matters relating to authorization and validity of the Bonds and to the tax-exempt status of interest thereon as described in the section *TAX EXEMPTION*. Bond Counsel has not been engaged to investigate the financial resources of the Company or its ability to provide for payment of the Bonds, and the Bond Opinion will make no statement as to such matters or as to the accuracy or completeness of this Official Statement or any other information that may have been relied on by anyone in making the decision to purchase Bonds.

Certain legal matters will be passed upon by Thomas G. Berkemeyer, counsel for the Company. Thomas G. Berkemeyer is Associate General Counsel of American Electric Power Service Corporation, an affiliate of the Company. Certain legal matters, other than the validity of the Bonds and the exclusion from gross income of interest thereon, will be passed upon by Dewey Ballantine LLP, New York, New York, counsel for the Underwriters. Certain legal matters will be passed on for the Issuer by its counsel, Forbes, Fields & Associates Co., L.P.A. Squire, Sanders & Dempsey LLP and Dewey Ballantine LLP each act as counsel to certain affiliates of the Company for some matters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

MISCELLANEOUS

The attached Appendices (including documents incorporated by references therein) are an integral part of the Official Statement and must be read together with all of the balance of this Official Statement.

The Issuer does not assume any responsibility for the matters contained in this Official Statement other than information under *THE ISSUER*. All findings and determinations by the Issuer relating to the issuance and sale of the Bonds are, and have been, made by the Issuer in performing its duties under Ohio law.

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COLUMBUS SOUTHERN POWER COMPANY

The Company is a public utility engaged in generating, purchasing, transmitting, distributing and selling electricity in Ohio. Its principal executive office is 1 Riverside Plaza, Columbus, Ohio 43215 and the telephone number is (614) 716-1000. The Company is a subsidiary of American Electric Power Company, Inc. (AEP) and is a part of the AEP integrated utility system.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (1934 Act) and in accordance therewith files reports and other information with the Securities and Exchange Commission (SEC). Such reports and other information may be inspected and copied at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC, Washington, D.C. 20549 at prescribed rates. The SEC may be contacted at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including the Company. Certain of the Company's securities are listed on the New York Stock Exchange, Inc., where reports, information statements and other information concerning the Company may also be inspected.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the SEC by the Company pursuant to the 1934 Act are incorporated by reference in this Appendix A and made a part of this Official Statement:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2006,
- The Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007, and
- The Company's Current Report on Form 8-K dated April 2, 2007.

All documents subsequently filed by the Company with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Official Statement and prior to the termination of the offering of the securities offered by this Official Statement are to be incorporated by reference in this Appendix A and to be a part of this Official Statement from the date such documents are filed.

Any statement contained in a document so incorporated or deemed to be incorporated 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 is deemed to be so incorporated 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 Appendix A.

The Company will provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any or all of the documents described above which have been incorporated by reference in this Appendix A, other than exhibits to such documents. Written requests for copies of such documents should be addressed to Financial Reporting, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215 (telephone number: 614-716-1000). The information relating to the Company contained in this Appendix A does not purport to be comprehensive and should be read together with the information contained in the documents incorporated by reference.

RISK FACTORS

Investing in the Bonds involves risk. Please see the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, which are incorporated by reference in this Official Statement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Official Statement. The risks and uncertainties described are those presently known to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations, our financial results and the value of the Bonds.

RATIO OF EARNINGS TO FIXED CHARGES

The Ratio of Earnings to Fixed Charges for each of the periods indicated is as follows:

<u>Twelve Months Period Ended</u>	<u>Ratio</u>
December 31, 2002	5.88
December 31, 2003	5.19
December 31, 2004	4.36
December 31, 2005	4.12
December 31, 2006	4.86
June 30, 2007	5.82

The Ratio of Earnings to Fixed Charges for the six months ended June 30, 2007 was 6.20. For the purposes of calculating the Ratio of Earnings to Fixed Charges, "earnings" represents income before income taxes, extraordinary items, and cumulative effect of accounting changes, plus fixed charges. "Fixed charges" consist of interest expense, amortization of debt issuance costs, and the portion of operating rental expense which management believes is representative of the interest within rental expense.

For current information on the Ratio of Earnings to Fixed Charges, please see our most recent Form 10-K and 10-Q. See *Available Information*.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements and the related consolidated financial statement schedule incorporated by reference in this Official Statement from Columbus Southern Power Company and subsidiaries' Annual Report on Form 10-K for the year ended December 31, 2006 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports incorporated herein by reference (which reports express an unqualified opinion and, as to the report related to the consolidated financial statements, includes an explanatory paragraph concerning the adoption of new accounting pronouncements in 2004 and 2006).

PROPOSED FORM OF OPINION OF BOND COUNSEL

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Air Quality Development Authority (the "Issuer") of \$44,500,000 principal amount of State of Ohio Air Quality Revenue Bonds (Columbus Southern Power Company Project), Series 2007A (the "Bonds"). The Bonds are being issued for the purpose of making a loan to assist Columbus Southern Power Company (the "Company") in the financing of the Company's portion of the costs of acquiring, constructing and installing certain "air quality facilities" as defined in Section 3706.01 of the Ohio Revised Code, as more particularly described in the Trust Indenture dated as of August 1, 2007 (the "Indenture") between the Issuer and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), and in the Loan Agreement dated as of August 1, 2007 (the "Agreement") between the Issuer and the Company. We have also examined executed counterparts of the Indenture and the Loan Agreement and a conformed copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest on the Bonds and the purchase price thereof (collectively, "debt charges") are payable solely from the revenues and other moneys assigned by the Indenture to secure those payments. Those revenues and other moneys include the payments required to be made by the Company under its promissory note (the "Note") delivered to the Issuer, and irrevocably assigned by the Issuer to the Trustee, all pursuant to the Agreement. The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no right to have taxes levied by the General Assembly of the State of Ohio or any political subdivision of the State of Ohio for the payment of debt charges.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code. Interest on the Bonds is an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Bonds, and any profit made on their sale, exchange or other disposition, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds subsequent to the issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance. We have also assumed for purposes of this opinion (i) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture and

(ii) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement and the Note.

We express no opinion as to the Statement of Insurance printed on the Bonds referring to the Insurance Policy (as defined in the Indenture) issued by MBIA Insurance Corporation or as to that Insurance Policy referred to in that Statement.

Respectfully submitted,

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 redemption upon the occurrence of a determination of taxability) 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 a mandatory redemption upon the occurrence of a determination of taxability), 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, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any 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 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

 Assistant Secretary

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AUCTION PROCEDURES

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ARTICLE I

DEFINITIONS

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Appendix D and elsewhere in this Official Statement have the following meanings with respect to bonds in an Auction Rate Period ("Bonds") unless the context or use indicates another or different meaning or intent.

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"All Hold Rate" means, as of any Auction Date, 45% of the Reference Rate in effect on such Auction Date.

"Applicable Percentage" means, as of any date of determination, the percentage of the Reference Rate (in effect on such Auction Date) determined in accordance with the Indenture, based on the Prevailing Rating of the Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	Applicable Percentages
AAA/Aaa	150%
AA/Aa	175%
A/A	200%
Below A/A	350%

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Appendix D.

"Auction Agreement" means an agreement among the Company, the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix D with respect to the Bonds while bearing interest at an Auction Mode Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) if the Bonds are in a daily Auction Period, each Business Day, and (ii) if the Bonds are in any other Auction Period, the Business Day next preceding the last Interest Payment Date for the Auction Period (whether or not an Auction shall be conducted on such date); *provided, however*, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and *provided, further*, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Bonds is September 20, 2007.

"Auction Desk" means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

"Auction Mode" means when the Bonds bear interest at an Auction Mode Rate.

“Auction Mode Rate” means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix D; *provided, however*, in no event may the Auction Mode Rate exceed the Maximum Auction Rate.

“Auction Period” means any period of less than 365 days during which the Bonds bear interest at a single Auction Mode Rate, as established pursuant to the Indenture.

“Auction Procedures” means the procedures for conducting Auctions for Bonds during an Auction Rate Period set forth in this Appendix D.

“Auction Rate” means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, *provided, however*, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate.

“Authorized Denominations” means \$25,000 and integral multiples thereof, notwithstanding anything else in the Indenture to the contrary, so long as the Bonds bear interest at a Auction Mode Rate.

“Available Bonds” means on each Auction Date, the aggregate principal amount of Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of Section 2.01 of this Appendix D.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix D, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Company, and that is a party to a Broker-Dealer Agreement with the Company and the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Company and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix D, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; *provided, however*, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Business Day” shall mean any day other than a Saturday or Sunday or other than a day on which commercial banks located in all of the cities in which the Principal Offices of the Trustee, the Paying Agent, the Broker-Dealer and the Auction Agent are located are authorized by law or regulation to close or on which the New York Stock Exchange or the Federal Reserve Bank of New York is closed.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, *provided* that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“Conversion Date” means the date on which the Bonds begin to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Monthly Rate, a Quarterly Rate, a Semiannual Rate, a Multiannual Rate or a Fixed Rate.

“Default Rate” means, in respect of any Auction Period other than a daily Auction Period, a per annum rate equal to three hundred and fifty percent (350%) of the Reference Rate determined on the Auction Date next preceding the first day of such Auction Period or in the case of Bonds in a Daily Auction Period, three hundred and fifty percent (350%) of the Reference Rate determined on the Auction Date which was the first day of such Auction Period, *provided, however*, the Default Rate shall not exceed the Maximum Interest Rate.

“Error Correction Deadline” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; *provided, however*, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Existing Owner” means a Person who is a beneficial owner of Bonds, *provided, however*, for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Failed Auction” means an Auction for which there were not Sufficient Clearing Bids.

“Hold Order” has the meaning specified in subsection (a) of Section 2.01 of this Appendix D.

“Initial Period” means the period from the date of issuance or reoffering of the Bonds to, but not including, September 21, 2007.

“Interest Payment Date” with respect to Bonds bearing interest at Auction Mode Rates, means September 21, 2007 and thereafter (a) when used with respect to any Auction Period of less than 92 days (other than a daily Auction Period), the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to an Auction Period of 92 or more days, each Thursday after the first day of such Auction Period or the next Business Day if such Thursday is not a Business Day and on the Business Day immediately following such Auction Period, (d) each Conversion Date and (e) the Maturity Date.

“Maximum Auction Rate” means as of any Auction Date the product of the Reference Rate multiplied by the Applicable Percentage; *provided, however*, that if there have been two or more consecutive Failed Auctions since the last Successful Auction and there has not been a Successful Auction for a period of greater than 90 days after the first of such Failed Auctions, the Maximum Auction Rate shall be the Maximum Interest Rate; *provided*, further that in no event shall the Maximum Auction Rate exceed the Maximum Interest Rate.

“Maximum Interest Rate” means the lesser of 13% or the maximum rate otherwise permitted by applicable law.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any, *provided, however*, for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Prevailing Rating” means (a) AAA/Aaa, if the Bonds will have a rating of AAA by S&P and Fitch and a rating of Aaa by Moody’s, (b) if not AAA/AAA/Aaa, AA/AA/Aa if the Bonds will have a rating of AA- or better by S&P and Fitch and a rating of Aa3 or better by Moody’s, (c) if not AAA/AAA/Aaa or AA/AA/Aa, A/A/A if the Bonds will have a rating of A- or better by S&P and Fitch and a rating of A3 or better by Moody’s, and (d) if not AAA/AAA/Aaa, AA/AA/Aa or A/A/A, then below A/A/A, whether or not the Bonds are rated by any securities

rating agency. For purposes of this definition, S&P's rating categories of "AAA," "AA-" and "A-," Fitch rating categories of "AAA," "AA-" and "A-" and Moody's rating categories of "Aaa," "Aa3" and "A3," will be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies will have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof will use different rating categories. If the Bonds are not rated by S&P, Fitch or Moody's, the requirement of a rating by S&P, Fitch or Moody's, as applicable, will be disregarded. If the ratings for the Bonds are split between two of the foregoing categories, the lower rating will determine the Prevailing Rating. If there is no rating, then the Auction Rate will be the Maximum Auction Rate.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Company, the Trustee and each Broker-Dealer.

"Rating Agencies" means Fitch, Moody's and S&P.

"Reference Rate" shall have the meaning specified in Section 2.07 of this Appendix D.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Sell Order" has the meaning specified in subsection (a) of Section 2.01 of Appendix D.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the "SIFMA Recommendation") unless the Auction Agent is instructed otherwise in writing by the Trustee or the Company. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

"Submitted Bid" has the meaning specified in subsection (b) of Section 2.04 of this Appendix D.

"Submitted Hold Order" has the meaning specified in subsection (b) of Section 2.04 of this Appendix D.

"Submitted Order" has the meaning specified in subsection (b) of Section 2.04 of this Appendix D.

"Submitted Sell Order" has the meaning specified in subsection (b) of Section 2.04 of this Appendix D.

"Successful Auction" means an Auction for which there were Sufficient Clearing Bids.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

"Winning Bid Rate" means the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the Auction Rate, subject to the All Hold Rate, would cause the aggregate principal amount of Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

ARTICLE II

AUCTION PROCEDURES

General Procedures. While the Bonds bear interest at the Auction Mode Rate, Auctions shall be conducted on each Auction Date (other than (i) the Auction Date immediately preceding each Auction Rate Period commencing after the ownership of the Bonds is no longer maintained in the Book-Entry System pursuant to the Indenture or (ii) for an Auction Period of 92 days or more, the Auction Date preceding each 13th Thursday after the first day of such Auction Period or the next Business Day if such Thursday is not a Business Day). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Appendix D.

Section 2.01. *Orders by Existing Owners and Potential Owners.*

- (a) Prior to the Broker-Dealer Deadline on each Auction Date:
 - (i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:
 - (A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period;
 - (B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner offers to sell on the next succeeding Auction Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner); and/or
 - (C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the next succeeding Auction Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and
 - (ii) for the purpose of implementing the Auctions, the Broker-Dealers shall contact *Potential Owners, including Persons that are Existing Owners, to determine the principal amount of Bonds, if any, which each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.*

For the purposes hereof an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

- (b) (i) Subject to the provisions of Section 2.03 of this Appendix D, a Bid by an Existing Owner shall constitute an offer to sell:

- (A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or
 - (B) such principal amount or a lesser principal amount of Bonds to be determined as set forth in subsection (a)(v) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or
 - (C) a lesser principal amount of Bonds to be determined as set forth in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.
- (ii) Subject to the provisions of Section 2.03 of this Appendix D, a Sell Order by an Existing Owner shall constitute an offer to sell:
 - (A) the principal amount of Bonds specified in such Sell Order; or
 - (B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.
- (iii) Subject to the provisions of Section 2.03 of this Appendix D, a Bid by a Potential Owner shall constitute an offer to purchase:
 - (A) the principal amount of Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or
 - (B) such principal amount or a lesser principal amount of Bonds as set forth in subsection (a)(vi) of Section 2.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.
- (c) Anything herein to the contrary notwithstanding:
 - (i) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee of an occurrence of an Event of Default resulting from the failure to pay the principal or interest on any Bond when due followed by the failure of the Bond Insurer to pay a proper claim under the Insurance Policy related to the Bonds, but shall resume two Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default, or failure of the Bond Insurer to pay, has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter; and
 - (ii) any Order by an Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(f)(ii) and 2.02(g).

Section 2.02. *Submission of Orders by Broker-Dealers to Auction Agent.*

- (a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying, with respect to each Order:

- (i) the aggregate principal amount of Bonds, if any, that are the subject of such Order;
 - (ii) to the extent that such Bidder is an Existing Owner:
 - (A) the principal amount of Bonds, if any, subject to any Hold Order placed by such Existing Owner;
 - (B) the principal amount of Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and
 - (C) the principal amount of Bonds, if any, subject to any Sell Order placed by such Existing Owner; and
 - (iii) to the extent such Bidder is a Potential Owner, the rate and amount specified in such Potential Owner's Bid.
- (b) If more than one Bid is submitted to a Broker-Dealer on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated by the Broker-Dealer and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Bonds specified therein.
- (c) Any Bid submitted by an Existing Owner or a Potential Owner to a Broker-Dealer specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and any such Bid shall be considered as valid and shall be selected in ascending order of the respective rates in the Submitted Bids (as defined in Section 2.04).
- (d) Neither the Issuer, the Company, the Trustee, any remarketing agent nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.
- (e) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.
- (f) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.
- (g) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:
- (i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

- (ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(g) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(g) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

Section 2.03. *Treatment of Orders by the Auction Agent.* Anything herein to the contrary notwithstanding:

- (a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b) or (c) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.
- (b) 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 of one percent (0.001%).
- (c) If one or more Orders covering in the aggregate more than the principal amount of outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:
 - (i) all Hold Orders shall be considered valid Hold Orders, but only up to and including in the aggregate the principal amount of Bonds held by such Existing Owner, and if the aggregate principal amount of Bonds subject to such Hold Orders exceeds the aggregate principal amount of Bonds held by such Existing Owner, the aggregate

principal amount of Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of outstanding Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the aggregate principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to sub-clause (A) of this paragraph (ii), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d);

(C) subject to sub-clause (A) of this paragraph (ii), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of Bonds held by such Existing Owner over the principal amount of Bonds held by such Existing Owner subject to Hold Orders referred to in sub-paragraph (i) of this paragraph (d); and

(D) the principal amount, if any, of such Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner at the rate specified therein; and

(iii) all Sell Orders shall be considered valid Sell Orders, but only up to and including a principal amount of Bonds equal to the excess of the principal amount of Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to sub-paragraph (i) of this paragraph (d) and the principal amount of Bonds considered to be subject to Bids of such Existing Owner pursuant to sub-paragraph (ii) of this paragraph (d).

(d) For purposes of any Auction, any Order which specifies Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof shall be rounded down to the nearest \$25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount.

(e) For purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds held by an Existing Owner 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 Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; *provided, however*, that if there is a conversion from one Auction Period to another

Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

Section 2.04. *Determination of Auction Mode Rate.*

(a) Not later than 10:30 a.m., New York City time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone (or other electronic notice acceptable to the Auction Agent) of the All Hold Rate, the Maximum Auction Rate and the Reference Rate.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all 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 as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) of this Section 2.04, the Auction Agent shall advise the Trustee and the Company by telex, facsimile or other electronic transmission of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify DTC of such Auction Rate.

(d) In the event there is no duly appointed Auction Agent or Broker-Dealer, or the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Mode Rate for the New Auction Period shall be the same as the Auction Mode Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Mode Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended. Notwithstanding the foregoing, no Auction Rate shall be extended for more than 35 days. If at the end of 35 days there remains no duly appointed Auction Agent or Broker Dealer, or the Auction Agent fails to calculate or provide the Auction Rate, the Auction Rate shall be the Maximum Auction Rate.

(e) In the event the Auction Procedures are suspended as provided in Section 2.01(c)(i), the Auction Rate for the period from the date of such suspension until the next succeeding regularly scheduled Auction Period shall be the Default Rate.

(f) In the event of a failed conversion from a Auction Mode Rate Determination Method to another Determination Method or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Mode Rate for the next Auction Period shall be the Maximum Auction Rate and the Auction Period shall be a seven-day Auction Period.

(g) If the Bonds are not rated or if the Bonds are no longer maintained in book-entry-only form by the Securities Depository then the Auction Mode Rate shall be the Maximum Auction Rate.

Section 2.05. *Allocation of Bonds.*

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted, and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii) and (iv) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds outstanding which are not the subject of Submitted Hold Orders described in sub-paragraph (i) of this paragraph (a) or of Submitted Bids described in sub-paragraphs (iii), (iv) or (v) of this paragraph (a) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Bonds outstanding subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Bonds obtained by multiplying (A) the aggregate principal amount of Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Bonds outstanding held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Bonds outstanding subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) of this Section 2.05, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Bonds which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) of this Section 2.05, any Potential Owner would be required to purchase less than \$25,000 in principal amount of Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate Bonds for purchase among Potential Owners so that the principal amount of Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing Bonds on such Auction Date.

Section 2.06. *Notice of Auction Rate.*

(a) On each Auction Date, the Auction Agent shall notify by telephone, other electronic means, or other communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of the following:

- (i) the Auction Rate determined on such Auction Date for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Bonds, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and
- (vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

- (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Person was accepted or rejected and (C) the immediately succeeding Auction Date;
- (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and
- (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

Section 2.07. *Reference Rate.*

(a) The Reference Rate on any Auction Date with respect to Bonds in any Auction Period of 35 days or less shall be the offered rate for deposits in U.S. dollars for a one-month period (LIBOR) which appears on Reuters Page LIBOR01 on Reuters 3000Xtra (or any successor service) 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. The Reference Rate with respect to Bonds in any Auction Period of more than 35 days shall be the rate on Treasury securities having a maturity which most closely approximates the length of the Auction Period, as last published in The Wall Street Journal. If either rate is unavailable, the Reference Rate shall be an index or rate agreed to by all Broker-Dealers and consented to by the Company.

(b) If for any reason on any Auction Date the Reference Rate shall not be determined as hereinabove provided in this Section, the Reference Rate shall be the Reference Rate for the Auction Period ending on such Auction Date.

(c) The determination of the Reference Rate as provided herein shall be conclusive and binding upon the Issuer, the Company, the Trustee, any remarketing agent, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the Bonds.

Section 2.08. *Miscellaneous Provisions Regarding Auctions.*

(a) In this Appendix D, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an Auction Rate Period, the provisions of the Indenture concerning the Auction Procedures and the definitions contained therein and described in this Appendix D, including without limitation the definitions of All Hold Rate, Interest Payment Date, Maximum Auction Rate, Reference Rate, Applicable Percentage and Auction Mode Rate, may be amended pursuant to the Indenture by obtaining the consent of the Bond Insurer and the owners of all Bonds bearing interest at a Auction Mode Rate, as follows. If, on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the Bonds as required by the Indenture, (i) the Auction Mode Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Company and the Trustee a Favorable Opinion, the proposed amendment shall be deemed to have been consented to by the owners of all affected Bonds affected by such amendment.

(c) During an Auction Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Existing Owner of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 2.08 if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.09. *Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) The Company may, from time to time on any Interest Payment Date following the end of an Auction Period, change the length of the Auction Period with respect to all of the Bonds in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The Company shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Bond Insurer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 days prior to the Auction Date for such Auction Period.

(ii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Mode Rate for the new Auction Period shall be the Maximum Auction Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, with the written consent of the Company, 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 order to conform with then current market practice with respect to similar securities or 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 Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Company, the Broker-Dealers, any remarketing agent, and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends shall be adjusted accordingly.

ARTICLE III

AUCTION AGENT

Section 3.01. *Auction Agent.*

(a) The Auction Agent shall be appointed by the Company to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Company, the Trustee, the Issuer and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Issuer, the Company and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.02. *Qualifications of Auction Agent; Resignation; Removal.* The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000 or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties and obligations imposed upon it by the Indenture and a member of or a participant in the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days notice to the Company, the Paying Agent, the Issuer, the Trustee and the Bond Insurer. The Auction Agent may be removed at any time by the Company by written notice, delivered to the Auction Agent, and the Trustee; provided that a successor Auction Agent has been appointed by the Company. Upon any such resignation or removal, the Company shall appoint a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Company and such successor Auction Agent has accepted such position; *provided, however*, that in the event that a successor Auction Agent has not been appointed within forty-five (45) days after the date specified in its notice of resignation, then the Auction Agent may petition a court of competent jurisdiction for a replacement. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving forty-five (45) days notice to the Company, the Issuer and the Trustee and the Bond Insurer even if a successor Auction Agent has not been appointed.

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