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Public Utilities Commission of Ohio

REGULATORY OPERATIONS

FILE

November 29, 2007

Ms. Betty McCauley
The Public Utilities Commission of Ohio
Docketing Division
180 East Broad Street, 13th Floor
Columbus, Ohio 43215

Re: Case No. 07-859-EL-AIS

Dear Ms. McCauley:

Enclosed please find an original and eleven copies of a Report of Sale and five copies each of the Official Statement in the above captioned case.

Thank you for your assistance in this matter. Please do not hesitate to contact me should you have any questions or comments.

Sincerely,

Dona R. Segert-Lawson
Director, Regulatory Operations

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**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

IN THE MATTER OF THE APPLICATION)	
OF THE DAYTON POWER AND LIGHT)	
COMPANY FOR AUTHORITY TO)	
EXECUTE AND DELIVER LONG -TERM)	CASE NO. 07-859-EL-AIS
LOAN AGREEMENTS TO BORROW UP)	
TO A MAXIMUM OF \$100,000,000 FROM)	
THE OHIO AIR QUALITY DEVELOPMENT)	
AUTHORITY OR OTHER AUTHORIZED)	
AGENCY.)	

REPORT OF SALE

Your Applicant, The Dayton Power and Light Company (the "Company"), pursuant to the Commission's Order of September 26, 2007, files the following report regarding the terms of sale of certain Air Quality Development Revenue Bonds and secured by a parallel sale of First Mortgage Bonds sold to J. P. Morgan Securities Inc. and Fifth Third Securities, Inc. as underwriters.


Name	Collateralized Air Quality Development Revenue Bonds, 2007 Series A
Principal	\$90,000,000.00
Maturity Date	November 1, 2040
Annual Interest Rate	Variable Rate – reset every 35 days (originally issued at 3.85%)
Annual Interest Cost	Varies according to reset rates (using an estimated rate of 4.0% the annual cost would be \$3,600,000)
Price to Public	100% plus accrued interest
Underwriter's Rate	0.35%
Underwriter's Fee	\$315,000.00
Proceeds to Company	\$89,685,000.00
Trustee and Auction Agent	Bank of New York

Identity of Initial Purchaser and Amount Purchased:

J. P. Morgan Securities Inc. and Fifth Third Securities, Inc. \$ 90,000,000

Five copies of the Official Statement are attached to the Report of Sale filed herein.

THE DAYTON POWER AND LIGHT COMPANY

By 

Joseph R. Boni III
Vice President and Treasurer

\$90,000,000
State of Ohio
Collateralized Air Quality Development Revenue Bonds, 2007 Series A
(The Dayton Power and Light Company Project)

Dated: Date of Issue _____

Due: November 1, 2040

The Bonds will be a special obligation 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 and redemption price thereof or interest thereon. The Bonds will be payable solely from and secured by an assignment by the Issuer of loan payments to be received under the Loan Agreement with, and collaterally secured by, certain First Mortgage Bonds issued by

The Dayton Power and Light Company

The proceeds of the Bonds will be used to assist The Dayton Power and Light Company, an Ohio corporation (the "Company"), in financing its portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities comprising "air quality facilities", as defined in Section 3706.01 of the Ohio Revised Code, at four generating stations located in Hamilton County, Ohio, Adams County, Ohio, Brown and Adams Counties, Ohio, and Coshocton County, Ohio.

Payment of principal and interest on the Bonds when due will be insured by a municipal bond new issue insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Bonds.



Interest on the Bonds will accrue at the Auction Rate from the date of issuance and will be payable on the first Business Day after the Auction Period, subject to certain exceptions. The Initial Period for the Bonds will end on December 20, 2007 and, unless changed in accordance with the Auction Procedures described in this Official Statement, the Bonds thereafter will bear interest as Auction Rate Bonds during an ARS Rate Period at Auction Period Rates applicable during each Auction Period for 35-day Auction Periods. The Auction Period Rate for the Bonds for each Auction Period after the Initial Period will be the rate of interest per annum that the Auction Agent advises results from an Auction conducted in accordance with the Auction Procedures, subject to certain conditions. The Bank of New York will serve as Trustee, Paying Agent and Registrar and will also serve as the initial Auction Agent under the Indenture. J.P. Morgan Securities Inc. will serve as the initial Broker-Dealer for the Bonds and as Remarketing Agent for the Bonds, if the Bonds bear interest at a Daily Rate, Weekly Rate, Commercial Paper Rate or Term Rate.

The method for determining the interest rate to be borne by the Bonds may be changed from an Auction Rate to a Daily Rate, Weekly Rate, Commercial Paper Rate or a Term Rate at the times and in the manner set forth in this Official Statement.

Prospective purchasers should carefully review the Auction Procedures described in this Official Statement and should note that (i) a Bid or a Sell Order constitutes a commitment to purchase or sell Auction Rate Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone or telefax communications and (iii) settlement for purchases and sales will be made on the first Business Day following an Auction. Auction Rate Bonds may be transferred only pursuant to a Bid or a Sell Order placed in an Auction or to or through a Broker-Dealer. See also "THE BONDS—Certain Considerations Affecting Auction Rate Securities."

The Bonds will be subject to optional, extraordinary optional and mandatory redemption and optional and mandatory tender prior to maturity, in each case at the price, in the manner and at the time set forth in this Official Statement.

The Bonds will be issuable only as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") and will be available to ultimate purchasers ("Beneficial Owners") under the book-entry only system maintained by DTC, only through brokers and dealers who are or act through DTC participants. Purchases by Beneficial Owners will be made in book-entry only form in denominations of \$25,000 principal amount and integral multiples thereof. Beneficial Owners will not be entitled to physical delivery of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, payment of the principal and redemption price of and interest on the Bonds shall be made directly to DTC, or its nominee. Disbursement of such payments to Beneficial Owners is the responsibility of DTC participants, as more fully described herein. See "THE BONDS—Book-Entry Only System."

Investing in the Bonds involves risks. See "Risk Factors" on page A-2 of Appendix A to this Official Statement.

PRICE 100%

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" herein.

The Bonds are offered, subject to prior sale, when, as and if issued by the Issuer, and accepted by the Underwriters and subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel, and certain other conditions. Legal matters in connection with the issuance of the Bonds will be passed upon for the Issuer by Forbes, Fields & Associates Co., L.P.A., Cleveland, Ohio, Counsel for the Issuer. It is expected that delivery of the Bonds will be made on or about November 15, 2007 through the facilities of DTC in New York, New York.

JPMorgan



The information contained in this Official Statement (which term shall be deemed to include the appendices to this Official Statement and all documents incorporated by reference herein) relating to the Issuer under the heading "THE ISSUER" has been obtained from the Issuer, and all other information contained in this Official Statement has been obtained from the Company and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Issuer or the Underwriters. The Issuer has not reviewed or approved any information in this Official Statement except information relating to the Issuer under the heading "THE ISSUER." The information concerning DTC has been obtained from DTC. This Official Statement is submitted in connection with the sale of the securities referred to herein, and may not be reproduced or be used, in whole or in part, for any other purpose.

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 Bonds will not be registered under the Securities Act of 1933, as amended, since the Bonds are exempt securities thereunder, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency will have passed upon the adequacy of this Official Statement or, except for the Issuer to the extent described herein, approved or validated the sale of the Bonds.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS WHICH STABILIZE, MAINTAIN OR OTHERWISE EFFECT THE PRICE OF THE BONDS. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

INTRODUCTORY STATEMENT	1
THE ISSUER	3
USE OF PROCEEDS	3
THE BONDS	4
THE BOND INSURANCE POLICY	30
THE INSURANCE AGREEMENT	34
THE LOAN AGREEMENT	34
THE INDENTURE	40
FIRST MORTGAGE BONDS AND FIRST MORTGAGE	48
TAX EXEMPTION	51
LEGAL MATTERS	53
RATINGS	54
UNDERWRITING	54
CONTINUING DISCLOSURE	55
MISCELLANEOUS	55
APPENDIX A — THE DAYTON POWER AND LIGHT COMPANY	
APPENDIX B — SPECIMEN BOND INSURANCE POLICY	
APPENDIX C — PROPOSED TEXT FOR OPINION FROM BOND COUNSEL	
APPENDIX D — AUCTION PROCEDURES	
APPENDIX E — CERTAIN DEFINITIONS	

\$90,000,000

**State of Ohio
Collateralized Air Quality Development Revenue Bonds,
2007 Series A
(The Dayton Power and Light Company Project)**

INTRODUCTORY STATEMENT

This Official Statement is provided to furnish information in connection with the sale by the Ohio Air Quality Development Authority (the "Issuer") of State of Ohio Collateralized Air Quality Development Revenue Bonds, 2007 Series A (The Dayton Power and Light Company Project) in the aggregate principal amount of \$90,000,000 (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of November 1, 2007 (the "Indenture"), between the Issuer and The Bank of New York, as trustee thereunder (the "Trustee"). The Registrar and Paying Agent for the Bonds will be The Bank of New York and The Bank of New York will also be the initial Auction Agent. Terms used as defined terms and not otherwise defined herein are used as defined in the Indenture.

The Bond proceeds received by the Issuer will be loaned (the "Loan") to The Dayton Power and Light Company, a public utility and corporation organized and existing under the laws of the State of Ohio (the "Company"), pursuant to a Loan Agreement, dated as of November 1, 2007 (the "Loan Agreement"), between the Issuer and the Company. The Bonds are being issued to provide funds in order 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 Section 3706.01 of the Act (as defined herein), at Units 7 and 8 at the Miami Fort Generating Station located in Hamilton County, Ohio; Unit 2 at the Killen Generating Station located in Adams County, Ohio; Units 1-4 at the J. M. Stuart Generating Station located in Brown and Adams Counties, Ohio; and Unit 4 at the Conesville Generating Station in Coshocton County, Ohio. Such generating station units are hereinafter referred to individually as a "Generating Station" and such air quality facilities at each Generating Station are hereinafter referred to individually as a "Project" and collectively as the "Projects."

As further evidence of, and to secure, its obligation under the Loan Agreement to repay the Loan evidenced thereby, the Company will deliver to the Issuer a series of its First Mortgage Bonds (the "2007 First Mortgage Bonds") in the principal amount of the Bonds. The payments required pursuant to the 2007 First Mortgage Bonds will be sufficient to provide for the payment of the principal of and interest on the Bonds.

The 2007 First Mortgage Bonds will be issued under and secured by the First and Refunding Mortgage dated as of October 1, 1935 from the Company to Irving Trust Company (now The Bank of New York), as trustee (the "First Mortgage Trustee"), as amended and supplemented by supplemental indentures thereto and as will be further supplemented for the issuance of the 2007 First Mortgage Bonds by a Forty-Fifth Supplemental Indenture dated as of November 1, 2007 (the "Forty-Fifth Supplemental Indenture" and, collectively, the "First Mortgage"). The 2007 First Mortgage Bonds will be the same as the Bonds in respect of aggregate principal amount, interest rate, maturity date and redemption provisions. Pursuant to

the Indenture, the Issuer will assign the 2007 First Mortgage Bonds, together with loan payments that may become due under the Loan Agreement, to the Trustee to secure the payment of the Bonds. The 2007 First Mortgage Bonds and all other bonds outstanding from time to time under the First Mortgage are hereinafter referred to as the "First Mortgage Bonds."

The Bonds will be dated the date of their original issuance, will mature on November 1, 2040, will be subject to optional and mandatory tender for purchase, and will be subject to optional, extraordinary optional and mandatory redemption, as provided in the Indenture and as further described in this Official Statement. The Bonds will bear interest initially at an interest rate determined for the Initial Period ending on December 20, 2007. Thereafter, the Bonds will bear interest as Auction Rate Bonds during an ARS Rate Period at Auction Period Rates applicable during each Auction Period (initially for 35-day Auction Periods), unless changed in accordance with the Auction Procedures set forth in the Indenture and described herein or until a conversion to a different interest rate determination method.

The Bonds will be special obligations of the State of Ohio issued by the Issuer, and will be payable solely from the funds pledged for their benefit pursuant to the Indenture. The Bonds will not constitute a debt or pledge of the faith and credit of 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 the State of Ohio or the taxing authority of any political subdivision of the State or Ohio for the payment or redemption price of, and interest on, the Bonds. The Issuer has no taxing power.

Prospective investors should note that the Loan Agreement allows the Company to transfer all or any part of its electric generating facilities and associated assets and liabilities to one or more other entities, to assign all of its obligations under the Loan Agreement (which represents the source of repayment of the Bonds) to any one or more of such entities and to be released from its obligations under the Loan Agreement. While the Company contemplates that any such ultimate obligor will be capitalized so as not to impair that entity's ability to fulfill its obligations under the Loan Agreement, there is no requirement in the Loan Agreement that the Company or any ultimate obligor of the Company's obligations hold any particular assets. The Company may only make such an assignment if certain conditions have been satisfied, including that the Company either (i) makes the assignment as of a date on which the Bonds are subject to mandatory tender for purchase or (ii) has delivered to the Issuer written evidence from each of Moody's Investors Service, Inc. ("*Moody's*") and Standard & Poor's Ratings Service ("*S&P*") that the Bonds have received, after taking into account the assignment, an Investment Grade Rating (as defined below) from such rating agency. The Issuer must acknowledge and agree to any such assignment and assumption agreement. See "THE LOAN AGREEMENT – Restructuring Transaction."

Upon the issuance of the Bonds, Financial Guaranty Insurance Company (the "*Bond Insurer*") will issue its bond insurance policy (the "*Bond Insurance Policy*") that will guarantee the payment of the principal of and interest on the Bonds when due and upon special mandatory redemption on determination of taxability as hereinafter described. The Bond Insurance Policy will be issued pursuant to an Insurance Agreement between the Company and the Bond Insurer to be dated the date of issuance of the Bonds (the "*Insurance Agreement*"). The Bond Insurance Policy will not insure payment of the purchase price of the Bonds subject to mandatory purchase

or purchase on the demand of the bondholders, losses suffered as a result of a bondholder's inability to sell the Bonds at an Auction, or payment of the principal, premium or interest on the Bonds as a result of an acceleration, redemption (other than mandatory redemption on determination of taxability) or other advancement of maturity. Certain information with respect to the Bond Insurance Policy, the Bond Insurer and the Insurance Agreement is included in this Official Statement. See "THE BOND INSURANCE POLICY," "THE INSURANCE AGREEMENT," and Appendix B. So long as the Bond Insurer is not in default under the Bond Insurance Policy, the Indenture and the Loan Agreement may not be amended or supplemented without the prior written consent of the Bond Insurer, in accordance with the provisions of the Indenture. Upon the occurrence of an Event of Default under the Indenture, so long as the Bond Insurer is not in default under the Bond Insurance Policy, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the bondholders or the Trustee. See "THE INDENTURE – Events of Default" and "–Rights of Bond Insurer."

This Official Statement contains brief descriptions of the Issuer, the Bonds, the Loan Agreement, the 2007 First Mortgage Bonds, the First Mortgage, the Bond Insurance Policy, the Bond Insurer, and the Indenture. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Loan Agreement, the First Mortgage, the Bond Insurance Policy, and the Indenture are qualified in their entirety by reference to such documents, and references herein to the Bonds and the 2007 First Mortgage Bonds are qualified in their entirety, by reference to the definitive forms thereof included in the Indenture and the Forty-Fifth Supplemental Indenture, respectively. Copies of such documents may be obtained from the Trustee. Certain information with respect to the Company is included as or incorporated by reference in Appendix A hereto. Appendix B is a Specimen Bond Insurance Policy; Appendix C is the proposed form of the opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds; Appendix D describes the Auction Procedures for the Bonds; and Appendix E sets forth Certain Definitions.

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 Loan Agreement and the Indenture.

USE OF PROCEEDS

The proceeds of the Bonds will be used to finance the Company's interest in the acquisition, construction and installation of certain solid waste disposal facilities comprising "air quality facilities", as defined in Section 3706.01 of the Act, at Units 7 and 8 at the Miami Fort Generating Station located in Hamilton County, Ohio; Unit 2 at the Killen Generating Station located in Adams County, Ohio; Units 1-4 at the J.M. Stuart Generating Station located in Brown and Adams Counties, Ohio; and Unit 4 at the Conesville Generating Station in Coshocton County, Ohio. The proceeds of the Bonds also will be applied to pay costs of issuance of the Bonds.

THE BONDS

General

The Bonds will be issued under the Indenture in the aggregate principal amount and mature on the date set forth on the cover page hereof, subject to optional, extraordinary optional and mandatory redemption and optional and mandatory tender prior to maturity as set forth in the Indenture and as described below. The Bonds will bear interest determined as described below. The Bonds will be issuable as fully registered Bonds without coupons in Authorized Denominations.

During any ARS Rate Period, Commercial Paper Rate Period, Daily Rate Period or Weekly Rate Period, payments of principal or redemption price of the Bonds will be payable in immediately available funds. During a Term Rate Period, payments of principal or redemption price of the Bonds will be payable in clearinghouse funds; provided that a holder of at least \$1,000,000 in aggregate principal amount of Bonds may deliver a written request to the Paying Agent prior to the applicable Regular Record Date or Special Record Date and, in that case, interest accrued will be paid by wire transfer to a bank within the continental United States to such holder, by direct deposit thereof to the account of the holder if such account is maintained with the Paying Agent or, for any holder who has entered into a special agreement with the Paying Agent in accordance with the Indenture, according to the directions contained therein. Each Bond will bear interest at the applicable rate determined pursuant to the Indenture for such Interest Period from the last preceding Interest Payment Date for which interest has been paid or duly provided for (or its issue date if no interest thereon has been paid or duly provided for). Subject to the provisions of the Indenture with respect to the establishment of a Special Record Date, the interest due on any Bond on any Interest Payment Date will be paid to the person in whose name such Bond is registered as shown on the register on the Regular Record Date. The amount of interest so payable will be computed (A) on the basis of a 365 or 366-day year, as applicable, for the number of days actually elapsed during a Commercial Paper Rate Period, Daily Rate Period or Weekly Rate Period, (B) on the basis of a 360-day year consisting of twelve 30-day months during a Term Rate Period, (C) on the basis of a 360-day year for the number of days actually elapsed if Auction Rate Bonds are in an Auction Period of 180 days or less, and (D) on the basis of a 360-day year consisting of twelve 30-day months if Auction Rate Bonds are in an Auction Period greater than 180 days.

Auction Rate Bonds

Auction Rates. Interest on the Bonds will accrue from the date of issuance. For the Initial Period ending on December 20, 2007, the interest rate will be the rate of interest per annum that is the minimum rate necessary to sell the Bonds on the date of issuance of the Bonds at the principal amount thereof (without regard to accrued interest). After the Initial Period, and prior to any subsequent conversion to a new interest rate determination method, the Bonds will be Auction Rate Bonds during an ARS Rate Period. The interest rate on Auction Rate Bonds (the "*Auction Period Rate*") for each Auction Period after the Initial Period will, subject to certain exceptions described below, be the rate that the Auction Agent advises has resulted on the Auction Date from the implementation of the auction procedures set forth in the Indenture and in Appendix D to this Official Statement (the "*Auction Procedures*"), in which persons determine

to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell Auction Rate Bonds. Each periodic implementation of the Auction Procedures is referred to as an "Auction."

The rate of interest on the Auction Rate Bonds for each Auction Period will be the Auction Period Rate. In the event the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, the Auction Period and the Auction Period Rate for the new Auction Period will be established as set forth in the Auction Procedures. In no event will the Auction Period Rate be an interest rate in excess of the Maximum Rate. Notwithstanding the foregoing, if: (a) the ownership of the Auction Rate Bonds is no longer maintained in the Book-Entry System, the Auctions will cease and the Auction Period Rate will be the Maximum Rate and (b) in the event of a failed conversion from an Auction Period to a Variable Rate Period 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 Period Rate for the next Auction Period will be the Maximum Rate and the Auction Period will be a seven-day Auction Period. See Appendix D "Auction Procedures."

Auction Periods and Dates. An Auction to determine the Auction Period Rate for each Auction Period after the Initial Period will occur on each Auction Date. The Auction Date for each Auction Period (other than a daily or Flexible Auction Period) will be the first Business Day next preceding each Interest Payment Date for the Bonds (whether or not an Auction is 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 or Flexible Auction Period will be the earlier of (i) the first Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the first Business Day next preceding the Interest Payment Date next preceding the Maturity Date. It is presently anticipated that an Auction Period of 35 days will be maintained for the Bonds and, therefore, Auctions for the Bonds are anticipated to be held every fifth Thursday, commencing December 20, 2007. The Company may change the length of one or more Auction Periods or establish a different day as the Auction Date for future Auction Periods. See "— Changes in the Auction Terms" below.

Interest Payment Dates. Interest on the Auction Rate Bonds (other than for a daily Auction Period or Flexible Auction Period) will be payable on the first Business Day immediately following each Auction Period. It is presently anticipated that each Auction Period for the Bonds will be 35 days, in which case the Interest Payment Dates after the initial Interest Payment Date (December 21, 2007) generally will be every fifth Friday.

The determination of any interest rate by the Remarketing Agent in accordance with the Indenture or by the Auction Agent in accordance with the Auction Procedures will be conclusive and binding upon the Issuer, the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Company, all Broker-Dealers and the registered and beneficial owners of Auction Rate Bonds. Failure of the Remarketing Agent, the Paying Agent, the Trustee, the Auction Agent or DTC or any DTC Participant to give any of the notices described in the Indenture, or any defect therein, will not affect the interest rate to be borne by any Auction Rate Bonds nor the applicable Auction Period.

In no event will the Auction Rate be more than the Maximum Rate on any Auction Date or the Maximum Interest Rate at any time.

Auction Agreement. The Trustee, at the direction of the Company, will enter into an agreement (the "**Auction Agreement**") with The Bank of New York (together with any successor bank or trust company or other entity entering into a similar agreement with the Trustee, the "**Auction Agent**") and acknowledged by the Company which provides, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate so long as the Auction Rate is to be based on the results of an Auction. In the absence of willful misconduct or negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent has been grossly negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

The Auction Agent may terminate the Auction Agreement upon written notice in accordance with the Auction Agreement. The Auction Agent may be removed at any time by the Trustee acting at the written direction of (i) the Company or (ii) the holders of a majority of the aggregate principal amount of the Auction Rate Bonds upon at least 90 days' written notice in accordance with the Auction Agreement.

Broker-Dealer Agreements. Each Auction requires the participation of one or more broker-dealers. The Auction Agent will enter into an agreement with J.P. Morgan Securities Inc. (or an affiliate thereof) and may enter into similar agreements (collectively, the "**Broker-Dealer Agreements**") with one or more additional broker-dealers (collectively, the "**Broker-Dealers**") selected by the Company with the approval of the Remarketing Agent (which approval will not be unreasonably withheld) which provide for the participation of Broker-Dealers in Auctions. The Broker-Dealer will be paid a fee calculated as set forth in the applicable Broker-Dealer Agreement. In the event that there is more than one Broker-Dealer, the Company will specify which Broker-Dealer is to perform certain functions under the Indenture.

Remarketing Agreement. The Company will enter into a Remarketing Agreement (the "**Remarketing Agreement**") with J.P. Morgan Securities Inc. with respect to the Bonds (together with any successor as remarketing agent under the Indenture, the "**Remarketing Agent**"), which sets forth the Remarketing Agent's duties and responsibilities and provides for the remarketing of Bonds bearing interest at an interest rate other than an Auction Rate. For each Rate Period, the interest rate for the Bonds will be determined by the Remarketing Agent in accordance with the Indenture; provided that the interest rate or rates borne by the Bonds may not exceed the Maximum Interest Rate. See also "THE INDENTURE – Remarketing Agent."

Liquidity Facility. Under the Indenture, upon conversion to a Rate Period that provides for either optional or mandatory tender for the purchase of Bonds prior to their maturity, a Liquidity Facility meeting the requirements of the Indenture and acceptable to the Bond Insurer must be delivered to the Trustee to provide for the payment of the purchase price of and accrued interest on Bonds tendered for optional or mandatory purchase, unless the

requirement to deliver a Liquidity Facility is waived by the Bond Insurer in connection with that particular conversion. *No Liquidity Facility will be provided in connection with Auction Rate Bonds.* As a consequence, certain provisions in the Indenture that would be applicable to the Bonds if a Liquidity Facility were delivered are not described in this Official Statement. If, at the option of the Company, a Liquidity Facility is delivered with respect to the Bonds, the Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof on the date of the delivery of the Liquidity Facility.

Depository. Unless a successor securities depository is designated pursuant to the Indenture, or unless the Company otherwise directs, DTC will act as the Depository for its members and participants (the "*DTC Participants*") with respect to Auction Rate Bonds. On the date of delivery of Auction Rate Bonds offered hereby, the Auction Rate Bonds will be issued in a global Bond in the denomination equal to the aggregate principal amount of Auction Rate Bonds authorized pursuant to the Indenture. It is anticipated that such global Bond will be registered in the name of Cede & Co., a nominee of DTC. The global Bond will bear a legend to the effect that such global Bond is issued subject to the provisions restricting transfers of Auction Rate Bonds contained in the Indenture. Stop-transfer instructions will be issued to the Paying Agent. DTC or its nominee will be the holder of record of all issued and outstanding Auction Rate Bonds and beneficial owners of such Auction Rate Bonds may not obtain physical possession of Auction Rate Bonds beneficially owned by them.

Payment of principal, interest and premium, if any, on Auction Rate Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of Auction Rate Bonds. Upon receipt of moneys, the current practice of DTC is to credit immediately the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to beneficial owners are governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participants and not of DTC, the Issuer, the Trustee, the Paying Agent, the Auction Agent or the Company, subject to any statutory and regulatory requirements as may be in effect from time to time. No assurances can be provided that in the event of bankruptcy or insolvency of DTC or a DTC Participant through which a beneficial owner holds its interest in Auction Rate Bonds, payment will be made by DTC or the DTC Participant on a timely basis.

The Issuer, the Trustee, the Paying Agent, the Company and the Remarketing Agent will recognize DTC or its nominee as the registered owner of Auction Rate Bonds for all purposes, including notices and consents. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to beneficial owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Bond certificates are required to be issued in exchange for a global certificate and registered in such names of the Beneficial Owner and in Authorized Denominations as the Depository, pursuant to instructions from the Participants or otherwise, will instruct the Trustee under the following circumstances:

(a) The Depository determines to discontinue providing its service with respect to the Bonds and no successor has been appointed within 90 days after the Company receives notice thereof. Such a determination may be made by a Depository at any time by giving notice to the Company, the Issuer, the Trustee, the Auction Agent, the Registrar and the Paying Agent and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines to discontinue the use of the system of Book-Entry transfers through the Depository.

(c) The Remarketing Agent has notified the Issuer, the Company, the Auction Agent, the Registrar, the Paying Agent and the Trustee that the Auction Rate Bonds should not be maintained in the Book-Entry System.

(d) The Depository is no longer registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and no successor has been appointed within 90 days after the Company receives notice thereof.

DTC, which is a New York-chartered, limited purpose trust company, performs services for its participants (including the DTC Participants), some of whom (and/or their representatives) own DTC. DTC maintains lists of its participants and will maintain the positions (ownership interests) held by each DTC Participant in Auction Rate Bonds, whether as an Existing Owner for its own account or as a nominee for another Existing Owner. Each beneficial owner of Auction Rate Bonds must make its own arrangements with its DTC Participant or Broker-Dealer to receive notices and payments with respect to Auction Rate Bonds.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITERS AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCH DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO THE BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL

REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

See "Book-Entry Only System" below for further information about DTC and its procedures.

Changes in the Auction Terms

Changes in Auction Period. During any ARS Rate Period, the Company may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period 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 the Bonds. The Company will initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers and the Depository that the Auction Period will change if the conditions described in the Auction Procedures are satisfied as of the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period. The change in length of the Auction Period will take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to the Bonds, each Existing Owner will 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 Rate for the new Auction Period will be the Maximum Rate, and the Auction Period will be a seven-day Auction Period.

Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Company, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) 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 by the Bonds. The Auction Agent will provide notice of the Company's direction 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 and the Broker-Dealers with a copy to the Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Dates relating to a such Auction Period will be adjusted accordingly.

Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealer(s), there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures, the Auction Agent and the Broker-Dealers may, as they deem appropriate and in accordance with the Auction Procedures, set a

different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

Certain Considerations Affecting Auction Rate Securities

Role of Broker-Dealer. J.P. Morgan Securities Inc. (the “*Broker-Dealer*”) has been appointed by the issuers or obligors of various auction rate securities, including the Company, to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for its services. The Broker-Dealer receives broker-dealer fees from such issuers or obligors at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through J.P. Morgan Securities Inc. in such auctions.

The Broker-Dealer is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealer will receive Broker-Dealer Fees from the Company with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

Bidding by Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the Bonds for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Bonds 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 for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Company to serve as a Broker-Dealer in the Auctions for the Bonds, the Broker-Dealer’s interests in serving as Broker-Dealer in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. See “– Role of Broker-Dealer.” The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that may in the future be appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer is the only Broker-Dealer appointed by the Company to serve as Broker-Dealer in the Auctions for the Bonds, and, as long as that remains the case, it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the Bonds. As a result, in such circumstances, the Broker-Dealer may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an “Auction Failure” (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities.

The Broker-Dealer routinely encourages bidding by others in auctions generally for which it serves as broker-dealer.

Bids by the Broker-Dealer or by those it encourages to place Bids are likely to affect (i) the Auction Rate – including preventing the Auction Rate from being set at the Maximum 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 Bonds being auctioned – including displacing some Bidders who may have their Bids rejected or receive fewer 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 for the Bonds clears successfully does not mean that an investment in the Bonds does not involve significant liquidity or credit risk. The 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 for the Bonds to prevent an Auction Failure or an Auction for the Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for the Bonds. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it encourages to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by the Broker-Dealer apply only to the 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 an Auction for the Bonds, if all outstanding 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 the Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that Auction for the Bonds from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above.

Price Talk. Before the start of an Auction for the Bonds, the Broker-Dealer, in its discretion, may 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 for the Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guarantee that the Auction Rate established through the Auction for the Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. The Broker-Dealer occasionally may update and change the Price Talk based on changes in Bond Insurer or Company 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. The Broker-Dealer will use its best efforts to communicate this information in a manner reasonably designed to make it available to all Existing Owners and Potential Owners that were given the original Price Talk. Existing Owners and Potential Owners

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

"All-or-Nothing" Bids. The 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 Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

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

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

Deadlines. Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the 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 for all customers – called the "Broker-Dealer Deadline" – by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. The Broker-Dealer will use its best efforts to make this information available by means reasonably expected to reach Existing Owners and Potential Owners. Existing Owners and Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may correct Clerical Errors by the Broker-Dealer after the Broker-Dealer Deadline and prior to the Submission Deadline. The Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline, including after the "Broker-Dealer 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 the Broker-Dealer or generated by the 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, the 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 a Bond (i) in an Auction for the Bonds, only

pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through the Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Bonds all, and may not be able to sell any, of the Bonds subject to such Submitted Sell Orders. As discussed above (see “– Bidding by Broker-Dealer”), the Broker-Dealer may submit a Bid in an Auction for the Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Bond Insurer’s or the Company’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the Bonds, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Bonds on the terms or at the times desired by an Existing Owner. The Broker-Dealer, in its own discretion, may decide to buy or sell the Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Bonds. However, the Broker-Dealer is not obligated to make a market in the Bonds and may discontinue trading in the Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Bonds may receive an amount less than par, depending on market conditions.

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

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Bond Insurer or the Company, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the 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 Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the 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 written notice to the Trustee, the Company, the Bond Insurer and the Issuer on the date specified in such notice, which date will be no earlier than 60 days after the date of delivery of such notice and does not require, as a condition to the effectiveness

of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 5 days written notice or suspend its duties immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation or suspension, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest rate on the Bonds will be determined as described in “– Auction Rate Bonds – Auction Rates.”

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 of fifteen firms, including the Broker-Dealer, that participate in the auction rate securities market regarding their 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 Broker-Dealer agreed to pay a civil penalty. In addition, the 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 the 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 that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures.

Interest Rate Determination Methods

Determination of Interest Rates and Rate Periods (other than Auction Rate). Following conversion from an ARS Rate Period, each interest rate to be determined by the Remarketing Agent will be the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value on the commencement date of such Rate Period equal to the principal amount thereof plus accrued and unpaid interest, if any, under prevailing market conditions as of the date of determination. In no event will the Variable Rate be an interest rate in excess of the Maximum Interest Rate. All determinations of Variable Rates, including Commercial Paper Rate Periods and Term Rate Periods, pursuant to the Indenture will be conclusive and binding upon the Issuer, the Company, the Trustee, the Paying Agent, the Liquidity Facility Issuer and the holders of the Bonds. The Variable Rate in effect for Bonds during any Rate Period will be available to holders

on the date such Variable Rate is determined, between 1:00 p.m. and 5:00 p.m., New York City time, from the Remarketing Agent at its principal office. Under the Indenture, the Bonds may be in different Rate Periods at any one time and the provisions of the Indenture will separately apply with respect to each portion of the Bonds.

During any transitional period for a conversion from the Commercial Paper Rate Period to a Daily or Weekly Rate Period in which the Remarketing Agent is setting different Commercial Paper Rate Periods in order to effect an orderly transition of such conversion, Bonds bearing interest at the Commercial Paper Rate will be governed by the provisions of the Indenture applicable to Commercial Paper Rate Periods and Commercial Paper Rates, and Bonds bearing interest at the Daily Rate or Weekly Rate, as applicable, will be governed by the provisions of the Indenture applicable to such Daily Rates and Daily Rate Periods or Weekly Rates and Weekly Rate Periods, as the case may be.

Commercial Paper Rate and Commercial Paper Rate Period. The Commercial Paper Rate Period for each Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Commercial Paper Rate Period as being the Commercial Paper Rate Period which, in the judgment of the Remarketing Agent, will, with respect to each Bond, ultimately produce the lowest overall interest cost on the Bonds during the Commercial Paper Rate Period; provided that each Commercial Paper Rate Period will be from one day to 270 days in length, will begin on a Business Day and end on a day preceding a Business Day or the day preceding the Maturity Date. The Commercial Paper Rate for each Commercial Paper Rate Period will be effective from and including the commencement date of such period and remain in effect to and including the last day thereof. Each such Commercial Paper Rate will be determined by the Remarketing Agent no later than 1:00 p.m., New York City time, on the first day of the Commercial Paper Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. If the Remarketing Agent has received notice of any conversion to a Term Rate Period, the remaining number of days prior to the Conversion Date or, if the Remarketing Agent has received notice of any conversion from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, the length of each Commercial Paper Rate Period for each Bond will be determined by the Remarketing Agent to be either (i) that length of period that, as soon as possible, will enable the Commercial Paper Rate Periods for all Bonds to end on the day before the Conversion Date, or (ii) that length of period which, based on the Remarketing Agent's judgment, will best promote an orderly transition to the next Rate Period. If a Liquidity Facility is then in effect, no Commercial Paper Rate Period may be established which is longer than a period equal to the maximum number of days' interest coverage provided by such Liquidity Facility minus 15 days or which extends beyond the remaining term of such Liquidity Facility minus 15 days.

Daily Rate and Daily Rate Period. Daily Rate Periods will commence on a Business Day and will extend to, but not include, the next succeeding Business Day. The Daily Rate for each Daily Rate Period will be effective from and including the commencement date thereof and will remain in effect during that Daily Rate Period. Each such Daily Rate will be determined by the Remarketing Agent no later than 10:30 a.m., New York City time, on the Business Day which is the commencement date of the Daily Rate Period to which it relates.

Weekly Rate and Weekly Rate Period. Weekly Rate Periods will commence on Wednesday of each week and end on Tuesday of the following week, except that (i) in the case of a conversion to a Weekly Rate Period, the initial Weekly Rate Period for Bonds will commence on the Conversion Date and end on the Tuesday of the following week; and (ii) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion will end on the last day immediately preceding the Conversion Date. The Weekly Rate for each Weekly Rate Period will be effective from and including the commencement date of such period and will remain in effect through and including the last day thereof. Each such Weekly Rate will be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Weekly Rate Period to which it relates.

Term Rate and Term Rate Period. Term Rate Periods will commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which an ARS Rate Period, Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period becomes effective. The Term Rate for each Term Rate Period will be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate will be determined by the Remarketing Agent not later than 12:00 noon, New York City time, on the Business Day immediately preceding the commencement date of such period. The duration of each successive Term Rate Period will be the same as the then current Term Rate Period until the Company elects to convert the Term Rate Period to an ARS Rate Period, Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, or to a Term Rate Period of a different duration, all as provided in the Indenture.

Failure of Remarketing Agent to Set Rate. If the Remarketing Agent fails for any reason (including, but not limited to, by reason of the method by which the Remarketing Agent determines the rate or because the Remarketing Agent suspends its efforts in accordance with the terms of the Remarketing Agreement) to determine the rate for a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Term Rate Period, then the Bonds will bear such interest at the last effective rate established for such Rate Period, provided, however, that if any such Rate Period is a Term Rate Period, then on the last Interest Payment Date of such Term Rate Period those Bonds will automatically be converted to a Weekly Rate Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of that date, or, if in that instance the Remarketing Agent fails to determine that rate, then at a rate of interest equal to 100% of the most recently published SIFMA Municipal Swap Index, but in no event exceeding the Maximum Interest Rate, provided further, however, that if any such Term Rate Period is of a duration of more than one year, then an Opinion of Bond Counsel will first have been delivered to the Trustee to the effect that the conversion to a Weekly Rate Period will not adversely affect the exclusion of interest on the Bonds and if such Opinion of Bond Counsel has not been delivered, those Bonds will automatically be converted to a Term Rate Period of a duration of two years, and will bear interest at a Term Rate equal to a Term Rate for such period determined by the Remarketing Agent as of the date on which the conversion was to occur, or if in that instance the Remarketing Agent fails to determine that rate, then at a rate of interest equal to

115% of the most recently published SIFMA Municipal Swap Index, but in no event exceeding the Maximum Interest Rate.

Conversions

Conversions Between Rate Periods. At the option of the Company, the Bonds may be converted from one Rate Period to another, including a conversion from one Term Rate Period to another Term Rate Period of a different duration. The Conversion Date must be an Interest Payment Date for the Rate Period from which the conversion is to be made; provided, however, that (i) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date must be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption pursuant to the Indenture or the last Interest Payment Date of that Term Rate Period, as the case may be; (ii) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date may be any Wednesday, regardless of whether the Wednesday is an Interest Payment Date; (iii) if the conversion is from an ARS Rate Period, the Conversion Date must be the Interest Payment Date following the final Auction Period; and (iv) if the conversion is from a Commercial Paper Rate Period, the Conversion Date must be the last Interest Payment Date on which interest is payable for all Bonds bearing Commercial Paper Rates theretofore established; provided, however, that if the conversion is from a Commercial Paper Rate Period to a Daily Rate Period or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Indenture and in that case the Conversion Date with respect to each Bond must be an Interest Payment Date for such Bond.

Not fewer than 15 days prior to the Conversion Date in the case of conversions from an ARS Rate Period, Daily Rate Period, Weekly Rate Period and Commercial Paper Rate Period, and not fewer than thirty (30) days prior to the Conversion Date in the case of a conversion from a Term Rate Period, and not fewer than thirty (30) days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee shall provide written notice (which may be by first class mail) of the conversion or the commencement of such new Term Rate Period to each holder at the holder's address as it appears on the Register. Such notice shall state: (i) in the case of a conversion, the type of Rate Period to which the conversion will be made and the Conversion Date, or, in the case of a conversion to the ARS Rate Period, the ARS Conversion Date; (ii) that the Bonds will be subject to mandatory tender for purchase on the Conversion Date or on the Business Day immediately succeeding the last day of a Term Rate Period, as the case may be, and the purchase price of the Bonds; (iii) in the case of a conversion to an ARS Rate Period, the length of the Initial Period, the first Auction Date, the first Interest Payment Date following the ARS Conversion Date, the initial Auction Period, the Auction Agent and the Broker-Dealer; and (iv) if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of Bond certificates and payment of the purchase price pursuant to the Indenture.

If the Auction Rate on the Bonds will be the Maximum Rate for a period (A) in excess of thirty (30) days, the Company will take all steps necessary to ensure the Auction Rate does not exceed the interest rate payable on similar securities (taking into account the interest period and enhanced/insured rating of the Bonds) or (B) in excess of sixty (60) days, the

Company will, unless this requirement is waived by the Bond Insurer, convert, or cause to be converted, all Bonds from an ARS Rate Period to a Term Rate Period to the Maturity Date or, with the approval of the Bond Insurer, to any other Variable Rate Period, in each case at the lowest interest rate that will permit the Remarketing Agent to sell all the Bonds on the Conversion Date at a price equal to 100% of the principal amount thereof plus accrued interest thereon. If an Event of Default will have occurred and be continuing under the Indenture or the Company fails to cause a conversion of the Bonds from an ARS Rate Period to a Variable Rate Period as required by the immediately preceding sentence, the Bond Insurer may, in its discretion, direct the conversion of the Bonds from the ARS Rate Period to a Term Rate Period to the Maturity Date or any other Variable Rate Period.

Conditions Precedent to Conversions. Any conversion (i) from a Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period to a Term Rate Period, (ii) from a Term Rate Period to a Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, (iii) to or from an ARS Rate Period, or (iv) to a Term Rate Period from a Term Rate Period of a different duration (on a date other than the date originally scheduled as the last Interest Payment Date of the then current Term Rate Period) will be subject to the condition that on or before the Conversion Date, the Company will have delivered to the Issuer, the Trustee, the Auction Agent, the Paying Agent, the Bond Insurer and the Remarketing Agent an Opinion of Bond Counsel to the effect that the conversion is authorized under the Indenture and the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

As a condition to any conversion from the ARS Rate Period to a Rate Period that provides for either optional or mandatory tender for purchase of Bonds prior to maturity, unless the Bond Insurer otherwise consents, a Liquidity Facility acceptable to the Bond Insurer must be delivered to the Trustee. The Liquidity Facility, if any, to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Rate Period plus 15 days, and, if a Liquidity Facility is to be held by the Trustee after the conversion of the Bonds to a Term Rate Period, that Liquidity Facility must also extend for the entire Term Rate Period plus 15 days. If a Liquidity Facility is in effect and the purchase price of the Bonds under the Indenture includes any premium, such conversion will be subject to the condition that the Trustee is entitled to draw on that Liquidity Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium). Notwithstanding anything in the foregoing, if an Event of Default involving a payment default on the part of the Company has occurred and is continuing, the Bond Insurer will succeed to the rights of the Company to request or direct a change in the Rate Period, provided that such payment default has occurred and is continuing for a period of 35 days from the date of such payment default.

Failure of Conversion. If for any reason a condition precedent to a conversion of the Bonds (other than a conversion of the Bonds from an ARS Rate Period) is not met, the conversion will not be effective (although any mandatory tender pursuant to the Indenture will be made on such date if the notice required under the Indenture has been sent to holders stating that the Bonds would be subject to mandatory purchase on that date), and the Bonds, except as otherwise provided and subject to the conditions set forth in the Indenture, generally will be converted to a Weekly Rate

Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur.

If the conversion is from an ARS Rate Period, at any time prior to 10:00 a.m. New York City time on the Business Day immediately preceding the Conversion Date the Company may withdraw its notice of conversion and the Auction for such Bonds will be held on such Auction Date as if no conversion notice had ever been given. If on a Conversion Date the conversion notice has not been withdrawn as set forth in the preceding sentence and any condition precedent to such conversion has not been satisfied, the Trustee will give notice by Electronic Means as soon as practicable and in any event not later than the next succeeding Business Day to the holders of the Bonds to have been converted, the Issuer, the Auction Agent, the Remarketing Agent, the Broker-Dealer and the Bond Insurer that such conversion has not occurred, that the Bonds will not be purchased on the failed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted excluding, however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate will continue to be the Auction Period Rate; provided, however, that the interest rate borne by the Bonds which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date will be the Maximum Rate, and the Auction Period will be the seven-day Auction Period.

Optional Tenders

Purchase Price and Purchase Dates. The holders of Bonds bearing interest for a Daily or Weekly Rate Period may elect to have their Bonds or portions thereof purchased at a purchase price equal to 100% of the principal amount of such Bonds (or portions thereof), plus any interest accrued from the immediately preceding Interest Payment Date and unpaid. There is no optional tender right while the Bonds are in a Commercial Paper Rate, Term Rate or ARS Rate Period.

Daily Rate. Bonds bearing interest at Daily Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon telephonic or electronic notice of tender given not later than 11:00 a.m., New York City time, on the purchase date to the Paying Agent. Any telephonic notice must be promptly confirmed by the holder to the Paying Agent in writing.

Weekly Rate. Bonds bearing interest at Weekly Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon delivery of written or electronic notice of tender to the Paying Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the purchase date.

Notice of Tender. When a book-entry only system is in effect, a Beneficial Owner, through its Direct Participant, of that book-entry only system may tender its interest in a Bond (or portion of Bond) by delivering notice, in the manner and by the time set forth above, to the Paying Agent stating the principal amount of the Bond (or portion of Bond being tendered), payment instructions for the purchase price and the purchase date. The Beneficial Owner will effect delivery of such Bonds by causing such Direct Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of DTC to the participant account of the Paying Agent

with DTC. When a book-entry only system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering a notice, in the manner and by the time set forth above, to the Paying Agent which states (A) the principal amount of the Bond or Bonds to which the notice relates, (B) that the holder irrevocably demands purchase of such Bond or Bonds or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (C) the date on which such Bond or portion is to be purchased, and (D) payment instructions with respect to the purchase price.

Mandatory Tenders

Commercial Paper Rate Periods. Each Bond bearing interest at a Commercial Paper Rate will be subject to mandatory tender for purchase, on the Interest Payment Date applicable to such Bond, at a purchase price equal to 100% of the principal amount thereof.

Conversion Dates. On any Conversion Date (other than a Conversion Date from a Daily Rate Period to a Weekly Rate Period or from a Weekly Rate Period to a Daily Rate Period), the Bonds will be subject to mandatory tender for purchase on such Conversion Date at a purchase price equal to 100% of the principal amount thereof (or, in the case of Bonds bearing interest at a Term Rate which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount redeemed, at a purchase price equal to that redemption price), provided, however, that in the event that the conditions of a conversion from an ARS Rate Period are not satisfied, including the failure to remarket all such Bonds on the Conversion Date, the Bonds will not be subject to mandatory tender for purchase on that Conversion Date, will be returned to the holders, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate.

Term Rate Periods. On the Business Day immediately succeeding the last day of a Term Rate Period, the Bonds will be subject to mandatory tender for purchase on such date at a purchase price equal to 100% of the principal amount thereof.

Mandatory Tender Upon Delivery, Cancellation or Expiration of Liquidity Facility or Replacement of a Liquidity Facility. If, at the option of the Company, a Liquidity Facility is delivered with respect to the Bonds, such Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof on the date of the delivery of the Liquidity Facility. In addition, if the Bonds are entitled to the benefit of a Liquidity Facility, such Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, (i) on the Interest Payment Date at least five days prior to the date of the cancellation of or the expiration of the term of the then current Liquidity Facility and (ii) on the Interest Payment Date on which a Liquidity Facility is replaced with a different Liquidity Facility.

Notices of Mandatory Tenders. Not fewer than 15 days prior to the Conversion Date in the case of conversions from an ARS Rate Period, Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period and not fewer than 30 days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee will mail by first class mail a written notice to each holder, setting forth those matters required by the Indenture, including a

statement that the Bonds will be subject to mandatory purchase on the Conversion Date or on the Business Day immediately succeeding the last day of the current Term Rate Period. No notice will be given in connection with the mandatory purchase of a Bond bearing interest at a Commercial Paper Rate on an Interest Payment Date applicable to such Bond.

Remarketing and Purchase of Tendered Bonds

The Indenture provides that, unless otherwise instructed by the Company, the Remarketing Agent, in accordance with the Remarketing Agreement, will offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof for which notice of tender has been received or which are subject to mandatory tender for purchase. The Remarketing Agent will not sell any Bond as to which a notice of either conversion from one type of Rate Period to another or redemption has been given by the Trustee, unless the Remarketing Agent has advised the person to whom the sale is made of the conversion or redemption. There will be no purchase of Bonds if an acceleration has been declared under the Indenture due to any Event of Default described under "THE INDENTURE – Events of Default," and there will be no remarketing of Bonds if there has occurred and is continuing an Event of Default or a Default under the Indenture, except in the sole discretion of the Remarketing Agent.

The purchase price of Bonds tendered for purchase will be paid by the Paying Agent from the following funds in the priority indicated: (i) proceeds of the remarketing of such Bonds by the Remarketing Agent to persons other than the Company, its affiliates or the Issuer, (ii) proceeds of the Liquidity Facility, if any, (iii) proceeds of the remarketing of such Bonds by the Remarketing Agent to the Company, and (iv) proceeds of the remarketing of such Bonds by the Remarketing Agent to an Affiliate of the Company or the Issuer.

Payment of Purchase Price

When a book-entry only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Paying Agent.

When a book-entry only system is not in effect, all Bonds to be purchased on any date must be delivered to the Principal Office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Bonds accruing interest at Auction or Weekly Rates; (ii) 1:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at Daily or Commercial Paper Rates; or (iii) 3:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at a Term Rate. If the holder of any Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Paying Agent for purchase on the purchase date, and if the Paying Agent is in receipt of the purchase price, the Bond will be purchased on the day fixed for purchase and ownership of such Bond (or portion thereof) will be transferred to the purchaser. If on the purchase date the Paying Agent is in receipt of the purchase price for all Bonds to be purchased on that purchase date, the holder of any such Bond will have no further rights thereunder except the right to receive the purchase price thereof and, if the purchase date coincides with an Interest Payment Date and if such holder was the holder of the Bond on the Regular Record Date pertaining to the Interest Payment Date, such rights as the holder may have to interest accrued to and unpaid on such Interest Payment Date.

Redemption

Optional Redemption. The Bonds will be subject to optional redemption by the Issuer at the direction of the Company, in whole or in part, as follows:

(i) during any ARS Rate Period, on the Interest Payment Date immediately following the end of an Auction Period, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, provided that after any optional redemption in part there will not be less than \$10,000,000 in aggregate principal amount of any Bonds bearing interest at an Auction Period Rate unless otherwise consented to by the Broker-Dealer;

(ii) during any Daily Rate Period or Weekly Rate Period, on any Interest Payment Date, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date;

(iii) during any Commercial Paper Rate Period for a Bond, on the Interest Payment Date for that Bond, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; and

(iv) during the Term Rate Period, on any date which occurs on or after the first day of the optional redemption period, and at the redemption prices, expressed as a percentage of the principal amount being redeemed, plus accrued and unpaid interest, if any, to the redemption date, as follows:

<u>Length of Term Rate Period</u>	<u>First Day of Optional Redemption Period</u>	<u>Redemption Price</u>
More than 15 years	Tenth anniversary of commencement of Term Rate Period	100%
More than 10, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period	100%
More than 5, but not more than 10 years	Fifth anniversary of commencement of Term Rate Period	100%
5 years or less	Non-callable	Non-callable

If at the time of the Company's notice to the Trustee of a conversion to a Term Rate Period (including a conversion from a Term Rate Period to a Term Rate Period of a different duration), the Company provides a certification of the Remarketing Agent to the Trustee and the Issuer that the foregoing schedule is not consistent with prevailing market conditions and delivers an Opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the date of such conversion.

Extraordinary Optional Redemption During a Term Rate Period. During a Term Rate Period, the Bonds are subject to redemption by the Issuer at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date, in whole or in part, upon the occurrence of any of the following events:

- (a) A Project or a Generating Station is damaged or destroyed to such an extent that (1) it cannot reasonably be expected to be restored, within a period of six consecutive months, to the condition thereof immediately preceding such damage or destruction or (2) the Company is reasonably expected to be prevented from carrying on its normal operations in connection therewith for a period of six consecutive months.
- (b) Title to, or the temporary use of, all or a significant part of a Project or a Generating Station is taken under the exercise of the power of eminent domain to such an extent that (1) it cannot reasonably be expected to be restored within a period of six consecutive months to a condition of usefulness comparable to that existing prior to the taking or (2) the Company is reasonably expected to be prevented from carrying on its normal operations in connection therewith for a period of six consecutive months.
- (c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Loan Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Loan Agreement.
- (d) Unreasonable burdens or excessive liabilities are imposed upon the Issuer or the Company with respect to a Project or a Generating Station or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes other than ad valorem taxes at the rates presently levied upon privately owned property used for the same general purpose as a Project or a Generating Station.
- (e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of a Project or a Generating Station for the Project Purposes (as defined in the Loan

Agreement) occur or technological or other changes occur which the Company cannot reasonably overcome or control and which in the Company's reasonable judgment render a Project or a Generating Station uneconomic or obsolete for the Project Purposes.

(f) Any court or administrative body enters a judgment, order or decree, or takes administrative action, requiring the Company to cease all or any substantial part of its operations served by a Project or a Generating Station to such extent that the Company is or will be prevented from carrying on its normal operations at a Project or a Generating Station for a period of six consecutive months.

(g) The termination by the Company of operations at a Generating Station.

As used above, the term "a Project" means the portion of the Project Facilities (as defined in the Loan Agreement) at a particular Generating Station.

Mandatory Redemption Due to Determination of Taxability. The Bonds are subject to mandatory redemption by the Issuer at a redemption price of 100% of the principal amount thereof, plus interest accrued to the redemption date, at the earliest practicable date selected by the Trustee, after consultation with the Company, but in no event later than 180 days following the receipt by the Trustee of notification of a Determination of Taxability, as defined below. The Bonds will be redeemed either in whole or, in part, in such principal amount as is necessary in order that the interest payable on the Bonds remaining outstanding after such redemption, if any, would not, in the Opinion of Bond Counsel, be includable in the gross income of any holder thereof, other than a holder of a Bond who is a "substantial user" of the Projects or a "related person", as those terms are used in Section 147(a) of the Code.

A "*Determination of Taxability*" means a final decision, ruling or technical advice by any federal judicial or administrative authority to the effect that, as a result of a failure by the Company to observe or perform any covenant, agreement or obligation on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation made by the Company in the Loan Agreement, interest on any Bond is or was includable in the gross income of the owner of that Bond for federal income tax purposes (other than an owner who is a "substantial user" of the Projects or a "related person" as those terms are used in Section 147(a) of the Code); provided that no decision by any court or decision, ruling or technical advice by any administrative authority will be considered final (a) unless the beneficial owner involved in the proceeding or action giving rise to such decision, ruling or technical advice (i) gives the Company and the Trustee prompt notice of the commencement thereof, together with evidence satisfactory to the Company and the Trustee that such party is the beneficial owner and (ii) offers the Company the opportunity to control the contest thereof, provided the Company will have agreed to bear all expenses in connection therewith and to indemnify that beneficial owner against all liabilities in connection therewith, and (b) until the expiration of all periods for judicial review or appeal. A Determination of Taxability will not result from the inclusion of interest on any Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, the branch profits tax on foreign corporations imposed by Section 884 of the Code or the tax imposed on net excess passive income of certain S corporations under Section 1375 of the Code.

If the Indenture has been released in accordance with its terms prior to the occurrence of a Determination of Taxability, the Bonds will not be subject to mandatory redemption.

Partial Redemption. If fewer than all of the Bonds are to be redeemed, the selection of Bonds to be redeemed, or portions thereof in amounts equal to the lowest Authorized Denomination, will be made by lot by the Trustee in any manner which the Trustee may determine. In the case of a partial redemption of Bonds by lot when Bonds of denominations greater than the lowest Authorized Denomination are then outstanding, each unit of face value of principal thereof equal to the lowest Authorized Denomination will be treated as though it were a separate Bond of such lowest Authorized Denomination. If it is determined that one or more, but not all of the units of face value represented by a Bond are to be called for redemption, then upon notice of redemption of a unit or units, the holder of that Bond will surrender the Bond to the Trustee (a) for payment of the redemption price of the unit or units of face value called for redemption (including without limitation, the interest accrued to the date fixed for redemption and any premium), and (b) for issuance, without charge to the holder thereof, of a new Bond or Bonds of any Authorized Denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of the Bond surrendered.

Notice of Redemption. The Trustee will give notice of the redemption on behalf of the Issuer by mailing a copy of the redemption notice by first class mail, postage prepaid, at least 30 days but not more than 90 days prior to the redemption date, to the owner of each Bond subject to redemption in whole or in part and to the Auction Agent and the Bond Insurer. Failure to receive any such notice, or any defect therein in respect of any Bond, will not affect the validity of the redemption of any Bond. If at the time of mailing of the notice of redemption there has not been deposited with the Trustee moneys sufficient to redeem all Bonds called for redemption, if the Company so directs, such notice may state that it is conditional, subject to the deposit of moneys sufficient for the redemption with the Trustee not later than the redemption date and such notice will be of no effect unless such moneys are so deposited. If either (A) unconditional notice of redemption was mailed or (B) conditional notice was mailed and the moneys sufficient to redeem all Bonds on the redemption date have been deposited with the Trustee, then in either event, the Bonds and portions thereof called for redemption will become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, will be paid at the redemption price, plus interest accrued to the redemption date.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to Cede & Co., and delivery of notice of redemption to the Direct Participants, if any, will be solely the responsibility of DTC.

Security for the Bonds

The Bonds will be special obligations of Ohio and will not constitute a debt, or a pledge of the faith and credit of (i) the Issuer or (ii) Ohio or of 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 by the taxing authority of any political subdivision of Ohio for the payment of the principal thereof or interest thereon. The Issuer has no taxing power.

The Bonds will be payable solely from and secured by an assignment of (i) payments made by the Company on the Loan, including payments on the 2007 First Mortgage Bonds, (ii) all other moneys received by the Issuer (exclusive of its fee, if any), or by the Trustee for the account of the Issuer, in respect of the repayment of the Loan, except certain moneys held for the benefit of the holders of particular Bonds, and (iii) the income and profit, if any, from the investment of such payments and moneys. The Loan Agreement provides that loan payments sufficient for the prompt payment when due of the principal of and interest on the Bonds will be paid to the Trustee by the Company for the account of the Issuer.

The Projects do not constitute any part of the security for the Bonds. However, as property of the Company, the Company's interest in the Projects will be subject to the lien of the First Mortgage and as a consequence will, together with substantially all of the other property of the Company, secure the 2007 First Mortgage Bonds ratably with all other First Mortgage Bonds. For a description of the 2007 First Mortgage Bonds and the security underlying them, See "FIRST MORTGAGE BONDS AND FIRST MORTGAGE."

The Issuer will absolutely assign to the Trustee, as security for the benefit of the holders of the Bonds, all its right, title and interest in and to the 2007 First Mortgage Bonds and the right to receive loan payments under the Loan Agreement.

Book-Entry Only System

Portions of the following information concerning DTC and DTC's book-entry only system have been obtained from DTC. The Issuer, the Company, Bond Counsel and the Underwriters make no representation as to the accuracy of such information. See "THE BONDS – Auction Rate Bonds – Depository" for information about DTC and its procedures relating to Auction Rate Bonds.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity date of the Bonds, in the aggregate principal amount of the Bonds maturing on such maturity date, and will be deposited with DTC or its custodian.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-

owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, 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 LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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. or such other DTC nominee do not effect any 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices will be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest 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 detail information from the Issuer or Paying Agent, on 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 Participant and not of DTC nor its nominee, the Paying Agent, the Issuer or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Paying Agent, disbursement or 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.

A Beneficial Owner may give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds on DTC's records to the Paying Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

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

So long as Cede & Co., as nominee of DTC, is the registered owner of any of the Bonds, the Beneficial Owners of such Bonds will not receive or have the right to receive physical delivery of the Bonds, and references herein to the registered owners of such Bonds will mean Cede & Co. and will not mean the Beneficial Owners of such Bonds.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITERS AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE BONDS, (2) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, OR (3) NOTICES OF REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH PARTICIPANTS MAY BE OBTAINED FROM DTC.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITERS AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCH DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO THE BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

Revision of Book-Entry Only System; Replacement Bonds

The Issuer, pursuant to a request by the Company and the Remarketing Agent, if any, for the removal or replacement of the Depository, and upon 30 days' notice to the Depository and the Trustee, will remove or replace the Depository.

In the event that the book-entry only system is discontinued, the following provisions will apply. The Bonds may be issued in Authorized Denominations. Bonds may be transferred or exchanged in Authorized Denominations upon surrender of such Bonds at the principal office of the Trustee, accompanied by an assignment satisfactory to the Trustee, duly executed by the Owner or the Owner's duly authorized attorney-in-fact. Neither the Issuer nor the Trustee will be required to make any such transfer or exchange of any Bond during the period beginning at the opening of business 15 days immediately preceding the mailing of a notice of Bonds selected for redemption and ending at the close of business on the day of such mailing, or, with respect to any Bond, after such Bond or any portion thereof has been selected for redemption. The Issuer or the Trustee may make a charge to the Owner for every transfer or exchange of a Bond sufficient to reimburse it for any tax or other governmental charge required to be paid with

respect to such transfer or exchange, and may demand that such charge be paid before any new Bond is delivered.

THE BOND INSURANCE POLICY

The Bond Insurer has supplied the following information for inclusion in this Official Statement. No representation is made by the Underwriters, the Remarketing Agent, the Issuer, Bond Counsel or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of the Bond Insurer subsequent to the date hereof. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Bond Insurance Policy, a specimen of the form of which is attached hereto as Appendix B. The Bond Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer and its affiliates set forth under this heading. In addition, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

Payments Under the Bond Insurance Policy

Concurrently with the issuance of the Bonds, the Bond Insurer will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Bond Insurance Policy"). The Bond Insurance Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). The Bond Insurer will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which the Bond Insurer shall have received notice (in accordance with the terms of the Bond Insurance Policy) from an owner of Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in the Bond Insurer. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Bond Insurance Policy is non-cancellable by the Bond Insurer. The Bond Insurance Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity date and the date on which the Bonds shall have been duly called for mandatory redemption as a result of the interest on the Bonds having been determined to have become subject to federal income taxation, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Bond Insurance Policy also covers the failure to pay interest on the stated date for its payment. In the

event that payment of the Bonds is accelerated, the Bond Insurer will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, the Bond Insurer will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder's rights thereunder.

The Bond Insurance Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Bond Insurance Policy. Specifically, the Bond Insurance Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory redemption upon a Determination of Taxability) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, the Bond Insurer may be granted certain rights under the Bond documentation. The specific rights, if any, granted to the Bond Insurer in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

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

The Bond Insurer

The Bond Insurer is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. The Bond Insurer is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

The Bond Insurer is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At September 30, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of the Bond Insurer or any claims under any insurance policy, including the Bond Insurance Policy, issued by the Bond Insurer.

The Bond Insurer is subject to the insurance laws and regulations of the State of New York, where the Bond Insurer is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known

as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, the Bond Insurer is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At September 30, 2007, the Bond Insurer had net admitted assets of approximately \$4.133 billion, total liabilities of approximately \$3.038 billion, and total capital and policyholders' surplus of approximately \$1.095 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements as of September 30, 2007, and the audited consolidated financial statements of the Bond Insurer and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "THE BOND INSURANCE POLICY," or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by the Bond Insurer with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of the Bond Insurer (if any) included in documents filed by the Bond Insurer with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although the Bond Insurer prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to the Bond Insurer's audited SAP financial statements.

Copies of the Bond Insurer's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. The Bond Insurer's telephone number is (212) 312-3000.

Recent Developments

On November 5, 2007, Fitch Ratings ("Fitch") issued a press release concerning the process it will employ in updating its analysis of the collateralized debt obligations of asset-backed securities ("ABS CDOs") insured by the financial guaranty industry, as well as the potential implications for Fitch's triple-A Insurer Financial Strength ratings. In its

announcement, Fitch indicated that it was updating its capital adequacy analysis in light of recent rating actions with respect to ABS CDOs having subprime mortgage-backed securities exposure, and that it expects to complete this capital analysis within four to six weeks. Fitch also discussed its preliminary observations on the relative probability that each triple-A rated financial guarantor may experience erosion of its capital cushion under Fitch's updated stress analysis. Fitch's preliminary observation is that the Bond Insurer would have a "high probability" of experiencing erosion of its capital cushion under Fitch's updated stress analysis, without taking into account any steps the Bond Insurer takes to mitigate risk or enhance its capital position; Fitch noted that it would be willing to consider in its capital analysis the impact of actions taken by a financial guarantor to mitigate risk or enhance its capital position during the interim period. Fitch stated that at the conclusion of its updated stress analysis, it would expect to place on "Rating Watch Negative" the Insurer Financial Strength rating of any financial guarantor whose capital ratio falls below Fitch's triple-A benchmark. Fitch would then expect to provide such a financial guarantor approximately one month to execute a risk mitigation strategy or raise capital so as to meet Fitch's triple-A capital standards; failure to do so would result in a downgrade of the guarantor's rating.

The Bond Insurer intends to work diligently with Fitch to address its concerns and explore risk mitigation and capital enhancement alternatives.

The Bond Insurer cannot give any assurance as to the outcome of Fitch's updated capital analysis, whether one or more other rating agencies will initiate similar analyses, or the outcomes of such similar analyses should they be initiated.

See "The Bond Insurer's Credit Ratings" for additional information.

The Bond Insurer's Credit Ratings

The financial strength of the Bond Insurer is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of the Bond Insurer. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are 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 Bond Insurer does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither the Bond Insurer nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to the Bond Insurer or the Bond Insurance Policy under the heading "THE BOND INSURANCE POLICY." In addition, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

See "Recent Developments" for information concerning recent rating agency developments.

THE INSURANCE AGREEMENT

The Bond Insurer has agreed to issue the Bond Insurance Policy pursuant to an Insurance Agreement with the Company (the "Insurance Agreement"). Under the Insurance Agreement, the Company is obligated to pay premiums relating to the Bond Insurance Policy and to reimburse the Bond Insurer, immediately and unconditionally upon demand, for all payments made by the Bond Insurer under the terms of the Bond Insurance Policy. The Company is also obligated to comply with certain covenants specified therein. The Insurance Agreement contains certain events of default, including the failure of the Company to pay amounts owed to the Bond Insurer, any breach by the Company of representations and warranties set forth therein, the failure by the Company to perform any covenant required to be performed by the Insurance Agreement and certain events of bankruptcy. If any such event of default should occur and be continuing, the Bond Insurer may, among other things, notify the Trustee of such an event of default in writing, which would result in an "Event of Default" under the Loan Agreement and the Indenture. See "THE LOAN AGREEMENT—Events of Default and Remedies" and "THE INDENTURE—Events of Default and Remedies."

THE LOAN AGREEMENT

Loan of Proceeds

The Issuer will loan the proceeds of the sale of the Bonds to the Company, in accordance with the Loan Agreement and the Indenture, to assist the Company in financing a portion of the costs of the Projects.

Application of Proceeds; Completion

Net proceeds of the Bonds will be deposited into the Project Fund and disbursed to pay Project Costs in accordance with the Loan Agreement. The Completion Date for the Projects will be established by the Company in accordance with the Loan Agreement. Any moneys in the Project Fund remaining after the Completion Date and payment, or provision for payment, in full of the Project Costs at the direction of the Company promptly will be (a) used to acquire, construct or install additional real and personal property comprising solid waste disposal facilities and Air Quality Facilities as defined in the Act for use in connection with the Projects as is designated by the Company and the acquisition, construction, equipment, installation and improvement of which will be such as is permitted under the Act, (b) used for the purchase of Bonds in the open market for the purpose of cancellation at prices not exceeding the fair market value thereof plus accrued interest to the date of payment therefor, (c) paid into the Bond Fund to be applied to the payment of principal and interest owing on the Bonds or the redemption of the Bonds, or (d) used for a combination of the foregoing as is provided in that direction or for any other purposes as are or may be permitted under the Act; provided that, in all such cases, (A) those moneys will be so used or applied only to the extent that such use or application will not, in the Opinion of Bond Counsel or under a ruling of the Internal Revenue Service, adversely affect the exclusion of the interest on the Bonds from the gross income of the holders thereof and (B)

any money remaining in the Project Fund following completion of the Projects will be invested in accordance with the Code in such manner as not to adversely affect the exclusion of the interest on the Bonds from the gross income of the holders thereof. If moneys in the Project Fund are not sufficient to pay all Project Costs, the Company, nonetheless, will complete the Projects or cause the Projects to be completed, in order to fulfill the Project Purposes defined in the Loan Agreement.

Loan Payments

The Company is obligated to make Loan Payments under the Loan Agreement which correspond, as to time, and are equal in amount, to the amount then payable as principal of and premium, if any, and interest on the Bonds. The 2007 First Mortgage Bonds will be assigned to the Trustee, concurrently with the issuance of the Bonds, to secure the Company's obligation under the Loan Agreement to repay the Loan. The 2007 First Mortgage Bonds provide that payments thereunder will be deemed paid to the extent payments are made on the Bonds. In any event, however, the loan payments to be made under the Loan Agreement by the Company are required to be sufficient to pay the total amount due with respect to the principal of and interest on the Bonds when due. All payments under the Loan Agreement related to the Loan are being assigned to the Trustee, and the Loan Agreement provides that the Company will make such payments directly to the Trustee for the account of the Issuer and for deposit in the Bond Fund.

Obligation to Purchase Bonds

The Company will agree to pay or cause to be paid to the Trustee or the Paying Agent, on or before each day on which Bonds may be or are required to be paid upon tender for purchase, amounts equal to the amounts to be paid by the Trustee or the Paying Agent with respect to the Bonds tendered for purchase on such dates pursuant to the Indenture; provided, however, that the obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent, (B) moneys drawn under a Liquidity Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company.

Term of Loan Agreement

The term of the Loan Agreement will continue until such time as all of the outstanding Bonds are fully paid (or provision has been made for such payment) pursuant to the Indenture and all other sums payable to the Company under the Loan Agreement have been paid.

Maintenance and Modification

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain the Project Facilities (as defined in the Loan Agreement), including all appurtenances thereto and any personal property therein or thereon, in good repair and good operating condition so that the Project Facilities will continue to constitute air quality facilities for the purpose of the operation thereof.

Subject to certain conditions, the Company has the right, from time to time, to remodel the Project Facilities or make additions, modifications and improvements thereto, the cost of

which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project Facilities.

Maintenance of Corporate Existence

Subject to the provisions below relating to an assignment or a Restructuring Transaction, the Company will agree during the term of the Loan Agreement, to maintain its corporate existence and, not to sell its electric properties as an entirety or substantially as an entirety or consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, except to the extent permitted under the provisions of the First Mortgage, provided that any successor corporation resulting from any such sale, consolidation or merger will assume all obligations of the Company arising under or contemplated by the provisions of the Loan Agreement.

Tax Exemption

The Company will covenant and represent in the Loan Agreement that it has taken and caused to be taken and will take and cause to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the holders thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

Assignment by Company

Notwithstanding any other provisions of the Loan Agreement to the contrary, the Loan Agreement may be assigned in whole or in part by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee, subject, however, to each of the following conditions:

- (a) no assignment (other than as described under “- Maintenance of Corporate Existence” above or “- Restructuring Transaction” below) will relieve the Company from primary liability for any of its obligations under the Loan Agreement, and in the event of any such assignment the Company will continue to remain primarily liable for the payment of the Loan Payments and Additional Payments (as defined in the Loan Agreement) and for performance and observance of the agreements on its part therein provided to be performed and observed by it;
- (b) any assignment by the Company must retain for the Company such rights and interests as will permit it to perform its obligations under the Loan Agreement, and any assignee from the Company will assume the obligations of the Company thereunder to the extent of the interest assigned;
- (c) the Company will furnish to the Issuer and the Trustee an Opinion of Bond Counsel to the effect that such assignment is authorized or permitted by the Act and will not adversely affect the exclusion from gross income of interest on the Bonds;

- (d) the Company must, within 30 days after the execution or an assignment, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with any instrument of assumption; and
- (e) any assignment from the Company may not materially impair fulfillment of the purposes of the Projects to be accomplished by operation of the Projects as provided in the Loan Agreement.

Restructuring Transaction

Notwithstanding any other provisions of the Loan Agreement to the contrary, the Loan Agreement may be assigned as a whole by the Company, subject, however, to each of the following conditions:

- (a) The Company's rights, duties and obligations under the Loan Agreement and all related documents are assigned to, and assumed in full by, the assignee either (i) as of a date the Bonds are subject to mandatory purchase under the Indenture or (ii) as of a date specified by the Company in connection with a Restructuring Transaction but, in such case, only if the assignee is the GenCo (as defined below) and the Company has delivered to the Issuer and the Trustee written evidence of an Investment Grade Rating (as defined below), taking into account such assignment to, and assumption in full by, the GenCo, with respect to the Bonds from each rating-agency.
- (b) The assignee and the Company will execute an assignment and assumption agreement, in form and substance reasonably acceptable to the Company, and acknowledged and agreed to by the Issuer, whereby the assignee will confirm and acknowledge that it has assumed all of the rights, duties and obligations of the Company under the Loan Agreement and all related documentation and agrees to be bound by and to perform and comply with the terms and provisions of the Loan Agreement and all related documentation as if it had originally executed the same; provided further that if there is more than one assignee, such assignment and assumption agreement will be on a joint and several basis among all assignees.
- (c) The Company will furnish to the Issuer, the Bond Insurer and the Trustee (i) an Opinion of Bond Counsel to the effect that such assignment is authorized or permitted by the Act and will not adversely affect the exclusion from gross income of interest on the Bonds, (ii) an opinion of counsel to the assignee to the effect that such assignment and assumption agreement has been duly authorized by the assignee and constitutes the legal, valid and binding obligation of the assignee, enforceable against the assignee in accordance with its terms, subject to laws relating to or affecting generally the enforcement of creditors' rights, including, without limitation, bankruptcy and insolvency laws and to general principles of equity (regardless of whether considered in a proceeding in equity or at law) and (iii) a certificate of an Authorized Company Representative and an opinion of counsel to the Company, each stating to the effect that such assignment complies with the Indenture and that all conditions precedent herein relating to such assignment have been complied with.

(d) The Company will, within 30 days after execution thereof, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of such assignment and assumption agreement.

(e) Any assignment from the Company will not materially impair fulfillment of the purpose of the Projects as provided in the Loan Agreement.

(f) Upon the effectiveness of such assignment and assumption, the assignee will be deemed to be the "Company" thereunder and the assignor will be relieved of all liability hereunder.

(g) Such assignment will have been approved in writing by the Bond Insurer in its absolute discretion; provided, however, that the Bond Insurer shall not unreasonably deny such approval if the assignment is to a Regulated Utility Company (as defined in the Insurance Agreement) with a credit rating on its senior secured or unsecured debt equal to or better than that of the Company's senior secured debt.

The following definitions apply to the foregoing:

"Restructuring Transaction" means the sale or transfer by the Company of some or all of its electric generating facilities and associated assets and liabilities, which sale or transfer includes the Generating Stations, to an entity or entities 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 and qualified to do business in the State (the "*GenCo*") if such sale or transfer is, in the sole discretion of the Company, necessary or desirable in order to permit the Company or an affiliate of the Company to provide retail electric service in the State or to comply with any law of the State relating to electric utility restructuring.

"Investment Grade Rating" means a long-term debt rating by a rating agency that is included in one of the four highest debt rating categories of the rating agency, provided that such rating categories mean generic categories and without regard to or other qualifications of ratings within each such generic rating category such as "+", "-", "1", "2" or "3."

"rating agency" means Moody's and S&P.

Events of Default and Remedies

The Loan Agreement provides that the occurrence of one or more of the following events will constitute an "event of default."

(a) The occurrence of an event of default described in paragraph (a), (b) or (c) under "THE INDENTURE—Events of Default and Remedies";

(b) Failure by the Company to observe and perform certain of its covenants, agreements or obligations under the Loan Agreement, other than its agreement to make loan payments when due, which continues for a period of 90 days after written notice by the Issuer or the Trustee, or for such longer period as the Issuer may agree to in writing; provided, that such failure will not constitute an event of

default so long as the Company is proceeding with due diligence to cure such default and pursues that action to completion within 150 days of the expiration of the initial cure period as determined above or within such longer period as the Issuer may agree to in writing;

(c) The occurrence of a "completed default" as defined in the First Mortgage (see "FIRST MORTGAGE BONDS AND FIRST MORTGAGE—Events of Default"); and

(d) Written notice from the Bond Insurer to the Trustee that an event of default has occurred and is continuing under the Insurance Agreement.

A failure by the Company described in paragraph (b) above is not a default if it occurs by reason of certain events specified in the Loan Agreement not reasonably within the control of the Company.

Whenever any event of default under the Loan Agreement has happened and is subsisting, either or both of the following remedial steps may be taken by the Issuer or the Trustee:

(a) Have access to inspect, examine and make copies of the books, records, accounts, and financial data of the Company, only, however, insofar as they pertain to the Projects; and

(b) Take whatever legal action may appear necessary or desirable to collect the payments then due and thereafter to become due under the Loan Agreement or to enforce performance and observance of any covenant, agreement or obligation of the Company under the Loan Agreement.

Any amount collected pursuant to action taken upon the happening of an event of default will be paid into the Bond Fund or, if the Bonds have been fully paid (or provision therefor has been made in accordance with the provisions of the Indenture), to the Company.

Amendments to the Loan Agreement

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the holders of the Bonds only as may be required (i) by the provisions of the Loan Agreement or the Indenture; (ii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission in the Loan Agreement; (iii) in connection with an amendment or to effect any purpose for which there could be an amendment of the Indenture not requiring the consent of the holders of the Bonds; or (iv) in connection with any other change therein which is not to the prejudice of the Trustee or the holders of the Bonds, in the judgment of the Trustee. The Indenture also provides that the Loan Agreement may be amended, but only with the consent of the holders of all of the outstanding Bonds, to change the amounts or times as of which loan payments under the Loan Agreement are required to be made. The Indenture further provides that any other amendments to the Loan Agreement may be made only with the written approval or consent of the holders of not less than a majority in aggregate principal amount of the Bonds outstanding.

THE INDENTURE

2007 First Mortgage Bonds Held by the Trustee

The Trustee will attend such meetings of holders of 2007 First Mortgage Bonds under the First Mortgage, or deliver its proxy in connection therewith, as relate to matters with respect to which it is entitled to vote or consent. The Trustee, as the holder of the 2007 First Mortgage Bonds, may vote such 2007 First Mortgage Bonds in connection with any proposed amendment, change, modification, direction, waiver or consent (hereinafter referred to as a "course of action") to the First Mortgage; provided, however, that so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer is not in default under the Indenture, (i) the Trustee will not consent to any course of action without the prior written consent of the Bond Insurer, and (ii) the Trustee will promptly notify the Bond Insurer of any notice which the Trustee receives from the First Mortgage Trustee and of any proposed amendment to the First Mortgage or any other proposed course of action, and (iii) the Bond Insurer will be entitled to exercise all rights (including voting rights) in respect of the 2007 First Mortgage Bonds granted to the Trustee as holder thereof, and the Trustee will accept notice from, and the direction of, the Bond Insurer in connection with any such exercise of rights.

Project Fund

The net proceeds of the sale of the Bonds, other than any accrued interest, will be deposited in and credited to the Project Fund created under the Indenture and will be used by the Trustee to pay a portion of the costs of financing the acquisition, construction and installation of the Project Facilities.

Bond Fund

A Bond Fund will be established with the Issuer and maintained by the Trustee as a trust fund under the Indenture. The amounts with respect to the payment of principal of and premium, if any, and interest on the Bonds derived under the Loan Agreement and the 2007 First Mortgage Bonds and certain other amounts specified in the Indenture will be deposited in the Bond Fund. While the Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal or redemption price of and interest on the Bonds as they become due on any Interest Payment Date or at stated maturity, by redemption or upon acceleration.

Bond Purchase Fund

A Bond Purchase Fund will be established and maintained by the Paying Agent for the deposit of amounts to be used to pay the purchase price of Bonds. Moneys in the Bond Purchase Fund will be used solely for the payment of the purchase price of Bonds. Moneys in the Bond Purchase Fund will not be pledged to the payment of the principal of or interest or any premium on the Bonds and will not be invested.

Investments

Any moneys held as part of the Project Fund and the Bond Fund will be invested by the Trustee at the request and direction of the Company.

Events of Default and Remedies

The Indenture provides that the occurrence of one or more of the following events will constitute an event of default:

- (a) Failure to pay any interest on any Bond when and as the same has become due and payable;
- (b) Failure to pay the principal or redemption price of any Bond when and as the same has become due and payable, whether at stated maturity, upon acceleration, by redemption or otherwise;
- (c) Failure to pay the purchase price of any Bond tendered for purchase pursuant to the Indenture when and as that purchase price becomes due and payable;
- (d) Failure by the Issuer to perform or observe any other covenant, agreement or obligation on the part of the Issuer contained in the Indenture or in the Bonds (other than a failure described in (a), (b) or (c) above), which failure has continued for a period of 90 days after written notice from the Trustee (or such longer period as the Issuer may agree to in writing), which notice may be given by the Trustee either in its discretion or at the written request of the holders of not less than 35% in aggregate principal amount of Bonds then outstanding, provided, that such failure will not constitute an Event of Default so long as the Issuer institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of the initial cure period and any extension thereof as determined above, or within such longer period as the Issuer may agree to in writing; or
- (e) The occurrence and continuance of an event of default described in paragraph (c) or (d) under "THE LOAN AGREEMENT—Events of Default and Remedies."

In determining whether an event of default under paragraph (a) or (b) above has occurred or whether a payment has been made, no effect shall be given to payments made under the Bond Insurance Policy.

Upon the occurrence of any event of default described in paragraph (a), (b), (c) or (e) above, and further upon the conditions that, (i) in accordance with the terms of the First Mortgage, the 2007 First Mortgage Bonds will have been declared to be due and payable by reason of a "completed default" under the First Mortgage and (ii) the Trustee will have received the prior written consent of the Bond Insurer to an acceleration of the Bonds, then the principal of all Bonds then outstanding (if not then due and payable), and the accrued and unpaid interest thereon, will be declared by the Trustee to be due and payable immediately, and the Trustee will give notice thereof in writing to the Issuer and the Company, and notice to holders of the Bonds in the same manner as a notice of redemption. Notwithstanding the above, any waiver of any completed default under the First Mortgage and a rescission and annulment of its consequences will constitute a waiver of the corresponding event or events of default under the Indenture

described in paragraph (a), (b), (c) or (e) and a rescission and annulment of the consequences thereof, subject, however, to the receipt by the Trustee of the prior written consent of the Bond Insurer to the annulment of such acceleration of the Bonds, but no such waiver, rescission and annulment will extend to or affect any subsequent event of default, or impair any right or remedy consequent thereon.

In addition, subject to the rights of the Bond Insurer described below, upon the happening and continuance of an event of default, the Trustee may pursue any other available remedy to enforce the payment of principal of and interest on the Bonds or the observance and performance of any other covenant, agreement or obligation under the Indenture, the Agreement or any other instrument providing security, directly or indirectly, for the Bonds. Subject to the rights of the Bond Insurer described below, the holders of a majority in aggregate principal amount of Bonds then outstanding will have the right at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings under the Indenture; provided that such direction may not be otherwise than in accordance with the provisions of law and of the Indenture, and provided that the Trustee must be indemnified to its satisfaction and may take any other action which it deems to be proper and which is not inconsistent with the direction.

All moneys received under the Indenture by the Trustee or a receiver upon the occurrence of an event of default will be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such money and of the fees and expenses incurred by the Trustee, and the balance of such money will be deposited in the Bond Fund and applied to the payment of the principal of and interest on the Bonds in the manner and in the priorities set forth in the Indenture.

Subject to the rights of the Bond Insurer described below, no holder of any Bond will have any right to institute any suit, action or proceeding for the enforcement of the Indenture or for the execution of any trust under the Indenture or for the exercise of any other remedy under the Indenture, unless (i) an event of default has occurred and is continuing of which the Trustee has notice, (ii) the holders of not less than 25% in aggregate principal amount of the then outstanding Bonds have made written requests to the Trustee and have afforded the Trustee reasonable opportunity to proceed to exercise the powers or trusts granted by the Indenture and have offered to the Trustee satisfactory indemnity as provided in the Indenture, and (iii) the Trustee thereafter has failed to exercise its powers or trusts under the Indenture or to institute such action, suit or proceeding in its own name. Notwithstanding the foregoing, each holder of a Bond will have a right to enforce the payment of the principal of and interest on any Bond held or owned by him at and after the due date thereof at the place, from the sources and in the manner expressed in said Bond.

Liquidity Facility

The Company may deliver a Liquidity Facility to the Trustee on any Interest Payment Date upon which the Bonds are subject to optional redemption or, if the Bonds are in a Term Rate Period, the last Interest Payment Date for that Term Rate Period. Any such Liquidity Facility is required to provide for direct payments to or upon the order of the Trustee of the

principal and purchase price of and interest on the Bonds when due. The Bond Insurer must consent in writing to the delivery of any Liquidity Facility or waive in writing any requirement to deliver a Liquidity Facility (such consent or waiver not to be unreasonably delayed or denied) and must be acceptable to the Bond Insurer.

Rights of Bond Insurer

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer will, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (a) in the case of subrogation as to claims for past due interest, the Trustee will note the Bond Insurer's rights as subrogee on the registration books of the Issuer maintained by the Trustee upon receipt from the Bond Insurer of proof of the payment by the Bond Insurer of interest thereon to the holders of such Bonds and (b) in the case of subrogation as to claims for past due principal, the Trustee will note the Bond Insurer's rights as subrogee on the registration books of the Issuer maintained by the Trustee upon surrender of the Bonds by the holders of the Bonds thereof together with proof of the payment of principal thereof. Notwithstanding anything in the Indenture or the Bonds to the contrary, the Trustee will make payment of such past due interest and past due principal directly to the Bond Insurer to the extent that the Bond Insurer is a subrogee with respect thereto.

As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder: (a) any acceleration of the Bonds or any annulment thereof will be subject to the prior written consent of the Bond Insurer; (b) the Bond Insurer will receive (i) from the Trustee immediate notice of any payment default or any "completed default" under the First Mortgage, (ii) from the Trustee or the Issuer notice of any other event of default known to the Trustee or the Issuer within 30 days of the Trustee's or the Issuer's receipt of written notice thereof, and (iii) from the Trustee notice of its receipt of written notice of the redemption of any of the Bonds or of any advance refunding of the Bonds; (c) for all purposes of the Indenture governing events of default and remedies, except the giving of notice of default to holders of the Bonds, the Bond Insurer will be deemed to be the sole holder of the Bonds; (d) the Bond Insurer will be included as a party in interest and as a party entitled to (i) notify the Issuer, the Trustee or any applicable receiver of the occurrence of an event of default under the Indenture and (ii) request the Trustee or receiver to intervene in judicial proceedings that affect the Bonds or the security therefor and the Trustee or receiver will be required to accept notice of default from the Bond Insurer; (e) to the extent that Bond Insurer will make payments of principal or interest on the Bonds, then the Bonds will remain outstanding and will not be considered paid by the Issuer, and the obligation of the Issuer to the holders of the Bonds will continue to exist for the benefit of the Bond Insurer and the Bond Insurer will be subrogated to the rights of the holder of the Bonds; and (f) any amendment or supplement to the Indenture or the Loan Agreement or other financing document relating to the Bonds will be subject to the prior written consent of the Bond Insurer.

Supplemental Indentures

The Issuer and the Trustee may, without the consent of, or notice to, any holder of a Bond, enter into supplemental indentures which will not, in the opinion of the Issuer and the Trustee, be inconsistent with the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, inconsistency or formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the holders any additional rights, remedies, powers or authority that lawfully may be granted to or conferred upon the holders or the Trustee;
- (c) To assign additional revenues under the Indenture;
- (d) To (i) accept additional security and instruments and documents of further assurance with respect to the Projects, including, without limitation, first mortgage bonds issued under the First Mortgage or (ii) make necessary or advisable amendments or additions in connection with the nontransferability, surrender and voting of First Mortgage Bonds;
- (e) To add to the covenants, agreements and obligations of the Issuer under the Indenture, other covenants, agreements and obligations to be observed for the protection of the holders, or to surrender or limit any right, power or authority reserved to or conferred upon the Issuer in the Indenture;
- (f) To evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Loan Agreement and the Bonds;
- (g) To permit the exchange of Bonds, at the option of the holder or holders thereof, for coupon Bonds payable to bearer, in an aggregate principal amount not exceeding the unmatured and unredeemed principal amount of those Bonds, bearing interest at the same rate or rates and maturing on the same date or dates, with coupons attached representing all unpaid interest due or to become due thereon if the Trustee has received an Opinion of Bond Counsel to the effect that the exchange would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;
- (h) To permit the transfer of Bonds from one Depository to another, and the succession of Depositories, or the withdrawal of Bonds issued to a Depository for use in a book entry system and the issuance of replacement Bonds in fully registered form to others than a Depository;
- (i) To permit the Trustee to comply with any obligations imposed upon it by law;

- (j) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar, the Bond Insurer, the Auction Agent, the Remarketing Agent and any Authenticating Agents or Paying Agents;
- (k) To achieve compliance of the Indenture with any applicable federal securities or tax law;
- (l) To make amendments to the provisions thereof relating to arbitrage matters under Section 148(f) of the Code, if, in the Opinion of Bond Counsel, those amendments would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;
- (m) To make any amendments appropriate or necessary to provide for or facilitate the delivery of any Liquidity Facility;
- (n) Prior to, or concurrently with, the conversion of the Bonds from a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period or Term Rate Period to an ARS Rate Period, to make any amendments appropriate or necessary with respect to the Auction Rate Procedures and any definitions or provisions herein or Exhibits hereto related thereto in order to provide for or facilitate the marketability of Auction Rate Bonds;
- (o) In connection with any mandatory purchase of all of the Bonds, to modify the Indenture in any respect (even if to the adverse interest of the holders) provided that such amendment shall not be effective until after such mandatory purchase and the payment of the purchase price in connection therewith; and
- (p) To permit any other amendment which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the holders.

Exclusive of such supplemental indentures, the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding, evidenced as provided in the Indenture, and with the consent of the Company, the Auction Agent and the Broker-Dealer, will have the right to consent to and approve any supplemental indenture, except that no supplemental indenture will permit:

- (a) without the consent of the holder of each Bond so affected, (i) an extension of the maturity of the principal of or the date for payment of the interest on any Bond, (ii) a reduction in the principal amount of any Bond or the rate of interest or premium thereon, (iii) a reduction in the purchase price of any Bond, or (iv) an extension of the date for payment of the purchase price of any Bond; or
- (b) without the consent of the holders of all Bonds then outstanding, (i) the creation of a privilege or priority of any Bond or Bonds over any other Bond or Bonds or (ii) a reduction in the aggregate principal amount of the Bonds required for consent to a supplemental indenture.

Any supplemental indenture which affects the rights or obligations of the Company requires the written consent of the Company. Any supplemental indenture which adversely affects any rights, duties, privileges or immunities of the Auction Agent, the Remarketing Agent or the Broker-Dealer requires the written consent of the party adversely affected. Before the Issuer and the Trustee may enter into any supplemental indenture, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the Act and is authorized under the Indenture, that such supplemental indenture will, upon the execution and delivery thereof, be valid and binding in accordance with its terms, and that such supplemental indenture will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

Discharge of Lien

The lien created by the Indenture will be discharged when:

- (a) The Issuer pays or causes to be paid to or for the holders and owners of the Bonds the principal and interest due or to become due thereon together with any premium required by redemption of any of the Bonds prior to maturity; and
- (b) The Issuer has paid or caused to be paid all other sums of money due or to become due pursuant to the provisions of the Indenture and the Loan Agreement.

All the outstanding Bonds will be deemed to have been paid and discharged within the meaning of the Indenture when:

- (a) the Trustee as paying agent and any Paying Agents will have received, in trust for and irrevocably committed thereto, sufficient moneys, or
- (b) the Trustee will have received, in trust for and irrevocably committed thereto, noncallable Government Obligations which are certified by an independent public accounting firm of national reputation, with a copy of the certification being delivered to the Rating Agencies, to be of such maturities or redemption dates and interest payment dates, and to bear such interest, as will be sufficient together with any moneys to which reference is made in subparagraph (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment of all the principal of and interest and any premium (the "Bond Service Charges") (provided that for purposes of the Indenture interest payable on the Bonds will be calculated at the Maximum Interest Rate unless the Bonds are in a Term Rate Period and the Bonds will mature or be redeemed on or prior to the last day of such Term Rate Period) on the Bonds at their maturity or redemption dates, as the case may be, or if a default in payment will have occurred on any maturity or redemption date, then for the payment of all Bond Service Charges thereon to the date of the tender of payment; provided, that if any of the Bonds are to be redeemed prior to the maturity thereof, notice of that redemption will have been

duly given or irrevocable provision satisfactory to the Trustee will have been duly made for the giving of that notice.

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

Under the Indenture, the Trustee accepts the trusts imposed upon it, and agrees to observe and perform those trusts upon and subject to the terms and conditions of the Indenture. Except for any period during which an event of default of which the Trustee will be deemed to have knowledge will have occurred and be continuing, the Trustee (i) undertakes to perform such duties and only those duties as are specifically set forth in the Indenture and (ii) in the absence of bad faith on its part, may rely conclusively, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture. During any period in which an Event of Default of which the Trustee will be deemed to have notice will have occurred and be continuing, the Trustee will exercise the rights and powers vested in it by the Indenture and will use the same degree of care and skill as a prudent man would use under the circumstances in the conduct of his or her own affairs. The Trustee will not be required to expend or risk its own funds in performing its duties under the Indenture and will be entitled to compensation and the reimbursement of its expenses and will have a lien therefor upon certain moneys held under the Indenture. The Indenture also contains provisions relating to the resignation and removal of the Trustee and the appointment of successor trustees and paying agents.

Remarketing Agent

The Remarketing Agent's principal office is at J.P. Morgan Securities Inc., 270 Park Avenue, New York, New York 10017 Attention: John Raben. The Remarketing Agent will determine the Variable Rates and the Commercial Paper Rate Periods for the Bonds and will remarket Bonds subject to optional or mandatory tender. The Remarketing Agent must have a capitalization of at least \$50,000,000 and be authorized by law to perform all the duties imposed upon it by the Indenture. Any successor Remarketing Agent must be rated at least Baa3/P-3 or otherwise be acceptable to Moody's and must have been approved in writing by the Bond Insurer (such approval not to be unreasonably delayed or denied).

If at any time the Remarketing Agent is unable or unwilling to act as a Remarketing Agent, the Remarketing Agent may resign upon the earlier to occur of (i) the twentieth day following receipt by the Company, the Issuer, the Trustee, the Auction Agent and the Paying Agent of written notice of resignation and (ii) the day of appointment by the Company of a successor Remarketing Agent pursuant to the Indenture and acceptance of such appointment by

such successor Remarketing Agent. The Remarketing Agent may be removed at any time by the Company upon five days' written notice signed by the Company and delivered to the Remarketing Agent, the Issuer, the Trustee, the Bond Insurer, the Auction Agent and the Paying Agent.

FIRST MORTGAGE BONDS AND FIRST MORTGAGE

General

All payments by the Company of principal of and interest on the 2007 First Mortgage Bonds will be made to the Trustee, as assignee of the Issuer, on or before the date that the corresponding payment is required to be made under the Bonds. The 2007 First Mortgage Bonds will mature on the date and bear interest at the same rate and be payable on the same dates as the Bonds. Dates and amounts of the payments of principal, whether at maturity or upon redemption, on the 2007 First Mortgage Bonds will correspond to those applicable to the Bonds. The Forty-Fifth Supplemental Indenture creating the 2007 First Mortgage Bonds will contain provisions for redemption of the 2007 First Mortgage Bonds that are consistent with those described above with respect to the Bonds. The articles cited below refer to Articles of the First Mortgage.

Priority and Security

The 2007 First Mortgage Bonds will rank equally and ratably with all First Mortgage Bonds at any time outstanding under the First Mortgage. As of September 30, 2007, the Company had an outstanding aggregate principal amount of \$784.4 million of First Mortgage Bonds. In the opinion of counsel for the Company, the First Mortgage constitutes a direct first mortgage lien subject only to liens for taxes and assessments, on substantially all the property owned by the Company, other than certain property specifically excepted. It is also the opinion of such counsel that the lien of the First Mortgage will extend, subject to liens for taxes and assessments and to liens existing or placed on such property when acquired by the Company, to all property (other than the excepted classes and under certain circumstances various vehicles) acquired or constructed by the Company subsequent to the date of issuance of the 2007 First Mortgage Bonds, located in the jurisdictions in which the necessary recordations or filings have been accomplished. (Granting Clauses)

The First Mortgage provides that the Company will maintain the mortgaged property in working order and condition and equipped with suitable equipment and appliances; that it will make regular charges to expense for the establishment of reasonably adequate reserves for depreciation and will make all needed and proper repairs, retirements, renewals and replacements of the mortgaged property; that the Company will not charge to its mortgaged property, plant and equipment accounts any expenditures that are properly chargeable to maintenance or repairs or to any other permitted expense account; and that the Company will promptly retire property that has permanently ceased to be used or useful in its business. (Article Eight, Section 4)

When not in default, the Company may obtain the release of any of the mortgaged property (other than the electric properties substantially as an entirety, and other than prior lien

bonds, which are controlled by the provisions of Article Nine of the First Mortgage) upon deposit with the First Mortgage Trustee of cash equivalent to the amount by which the value of the property to be released exceeds certain credits, including the cost or then fair value (whichever is less) to the Company of any property additions acquired or constructed prior to or concurrently with such release. (Article Eleven, Section 3) Money received by the First Mortgage Trustee upon any release may be withdrawn against property additions or against the deposit of bonds or prior lien bonds, or at the Company's request, may be applied to purchase First Mortgage Bonds or redeem First Mortgage Bonds that are redeemable by their terms at that time. (Article Eleven, Section 5)

"Property additions" means property acquired or constructed after September 30, 1945, to be used in the electric, natural gas, steam or water business. (Article One, Section 4) "Funded property" includes property additions used to satisfy requirements of bond issuances and obligations or bond retirements. (Article One, Section 5)

Issuance of Additional First Mortgage Bonds

Additional First Mortgage Bonds may be issued without limit as to amount without the consent of the existing holders of First Mortgage Bonds (Articles Two and Four):

- (a) upon the basis of property additions which are not then funded property in a principal amount which, together with any prior lien bonds outstanding on such property additions, will not exceed 60% of the lesser of the cost or then fair value to the Company of such property additions (Article Five);
- (b) against deposits or retirement of prior lien bonds deducted in determining the amount of bonds issuable upon the basis of property additions (Article Five);
- (c) upon payment or retirement of other First Mortgage Bonds issued under the First Mortgage or upon deposit with the First Mortgage Trustee of the money necessary for their purchase or payment, in principal amount equivalent to the First Mortgage Bonds paid or retired, or for which money has been so deposited (Article Six); and
- (d) upon deposit with the First Mortgage Trustee of cash equal to the principal amount of the First Mortgage Bonds to be issued; such cash may be withdrawn in lieu of First Mortgage Bonds which the Company may be entitled to have authenticated and delivered to it. (Article Seven and Article Eleven, Section 5)

The issuance of additional First Mortgage Bonds is also limited by a net earnings test, under which no First Mortgage Bonds may be issued upon the basis of property additions or under certain other circumstances unless the net earnings of the Company for 12 consecutive calendar months in the 18 calendar months preceding the application for the issue of such First Mortgage Bonds will be at least two times annual interest charges on all First Mortgage Bonds outstanding, on the additional First Mortgage Bonds and on prior lien bonds outstanding which are not deposited with or made the basis of such application. (Article Five, Section 5)

As of September 30, 2007, the amount (the lesser of cost or fair value) of property additions which the Company could use as a basis for the issuance of additional First Mortgage Bonds was approximately \$1,063 million. Under the property additions test, the Company would have been permitted at September 30, 2007 to issue approximately \$638 million of First Mortgage Bonds; the related net earnings test would not restrict the issuance of such bonds (assuming an annual interest rate of 6.0%). In addition, at that date, approximately \$248.7 million of First Mortgage Bonds could have been issued as a result of prior First Mortgage Bond retirements. (Article Five) The 2007 First Mortgage Bonds will be issued upon the basis of retired First Mortgage Bonds.

Modification of First Mortgage

The rights and obligations of the Company and of the holders of the First Mortgage Bonds may be modified upon the written consent of the holders of a majority of the First Mortgage Bonds then outstanding, but no such modification will extend the maturity of or reduce the rate of interest on or otherwise modify the terms of payment of principal of or interest on First Mortgage Bonds or permit the creation of any lien ranking prior to or equal with the lien of the First Mortgage on any of the mortgaged property. If any proposed modification will affect the rights of holders of the First Mortgage Bonds of one or more, but not all, series, then only holders of First Mortgage Bonds of the series to be affected will be required to consent to or will have authority to approve such modification. Any waiver of a completed default will be deemed to affect the First Mortgage Bonds of all series, and, subject to the foregoing, any modification of the provisions of any sinking fund established in respect of a particular series will be deemed to affect only the First Mortgage Bonds of that series. The determination of the First Mortgage Trustee as to what series of First Mortgage Bonds are affected by any modification will be conclusive. (Article Eighteen, Section 2)

Events of Default

Among the events which constitute a "completed default" by the Company under the First Mortgage are the following: (a) default in the payment of the principal of any First Mortgage Bond; (b) default for 90 days in the payment of interest on any First Mortgage Bond; (c) default for 90 days in the payment of amounts required for any Improvement and Sinking Fund of any series; (d) certain events in bankruptcy, insolvency or reorganization; and (e) default, for 90 days after notice to the Company from the First Mortgage Trustee, in the performance of any other covenant, agreement or condition contained in the First Mortgage. Upon the occurrence of any such completed default, the First Mortgage Trustee or the holders of not less than 25% in principal amount of the First Mortgage Bonds of all series outstanding under the First Mortgage may declare the principal of, and any accrued interest on, all such First Mortgage Bonds immediately due and payable, subject to the right of the holders of a majority in principal amount of all such First Mortgage Bonds to annul such declaration if before any sale of the mortgaged property the default is cured. (Article Twelve, Section 1) The Company is required by law to furnish annually to the Trustee a certificate as to compliance with all conditions and covenants under the First Mortgage.

No holder of First Mortgage Bonds may institute any action, suit or proceeding for any remedy under the First Mortgage unless he will have previously given to the First Mortgage

Trustee written notice of a default by the Company and, in addition, (i) the holders of not less than 25% in principal amounts of the First Mortgage Bonds outstanding under the First Mortgage will have made a written request to the First Mortgage Trustee to exercise its powers under the First Mortgage or to institute such action, suit or proceeding in its own name, (ii) such holders will have offered to the First Mortgage Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred thereby, and (iii) the First Mortgage Trustee will have refused to exercise such powers or to institute such action in its own name or will have failed to do so for an unreasonable time. Holders of First Mortgage Bonds, however, have an absolute and unconditional right, without such notice to the First Mortgage Trustee, to enforce the payment of the principal of and the interest on their First Mortgage Bonds at and after the maturity thereof. (Article Twelve, Section 15)

Other

There are no Improvement and Sinking Fund provisions applicable to the 2007 First Mortgage Bonds. The First Mortgage does not restrict our ability to pay dividends on common stock of the Company.

Regarding the First Mortgage Trustee

The First Mortgage Trustee under the First Mortgage is The Bank of New York. The Company and its affiliates also maintain various banking, lending, trust and other relationships with The Bank of New York and its affiliates.

The First Mortgage provides that the Company's obligations to compensate the First Mortgage Trustee and reimburse the First Mortgage Trustee for expenses (including any indemnity obligations) will be secured by a lien generally prior to that of the First Mortgage Bonds upon all property and funds held or collected by the First Mortgage Trustee as such. (Article Sixteen, Section 1)

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. Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bondowner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the excludability of such interest from gross income for federal income tax purposes. 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 incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon are subject to the legal opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel for the Bonds. A signed copy of that opinion, dated and speaking only as of the date of original delivery of the Bonds, will be delivered to the Underwriters at the time of such original delivery and the text of that opinion will be printed on the Bonds. The proposed text of the opinion on the tax-exempt status of the Bonds is set forth in Appendix C. In its capacity as Bond Counsel, Squire, Sanders & Dempsey L.L.P. has participated in the preparation of, and have reviewed those portions of, this Official Statement

pertaining to the Issuer, the Bonds, the Loan Agreement, the Indenture, and the tax-exempt status of the Bonds. Bond Counsel will render an opinion that the statements under the captions "THE ISSUER" and "TAX EXEMPTION" fairly and accurately present the information purported to be shown and that the statements under the captions "THE BONDS," (except for information and statements under "THE BONDS-Book-Entry Only System" and "THE BONDS-Certain Considerations Affecting Auction Rate Securities"), "THE LOAN AGREEMENT," "THE INDENTURE" and in Appendices D and E hereto, insofar as such statements describe the Bonds, the Loan Agreement and the Indenture, fairly and accurately summarize the material provisions of those documents. Bond Counsel has not been retained to pass upon any other information in this Official Statement, including Appendices A or B hereto or in any other reports, financial information, offering or disclosure documents or other information pertaining to the Issuer, DTC, the Company, the Projects, the Bond Insurer, the Bond Insurance Policy or the Bonds that may be prepared or made available by the Issuer, the Company or others to the prospective purchasers of the Bonds or to others. Legal matters in connection with the issuance of the Bonds will be passed upon for the Issuer by Forbes, Fields & Associates Co., L.P.A., Cleveland, Ohio, counsel for the Issuer. Neither Bond Counsel nor Counsel for the Issuer has participated in the preparation of, or reviewed, Appendix A hereto concerning the Company.

The Underwriters will receive opinions with respect to certain matters pertaining to the Company from Timothy G. Rice, Interim Senior Vice President, General Counsel and Corporate Secretary of the Company, and from Cadwalader, Wickersham & Taft LLP, Counsel for the Company. As to all matters based on the law of the State of Ohio, Cadwalader, Wickersham & Taft LLP will rely on the opinion of Mr. Rice. Certain legal matters will be passed upon for the Underwriters by Pillsbury Winthrop Shaw Pittman LLP, Counsel for the Underwriters.

RATINGS

It is expected that Standard & Poor's will assign the Bonds a rating of "AAA" and Moody's will assign the Bonds a ratings of "Aaa" on the basis of the Bond Insurance Policy. Any desired further explanation of the significance of these ratings should be obtained from Moody's or Standard & Poor's, respectively. There is no assurance that such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

UNDERWRITING

Under the terms of a bond purchase agreement, the Underwriters, J.P. Morgan Securities Inc. and Fifth Third Securities, Inc., have agreed, subject to the approval of certain legal matters by counsel and to certain other conditions, to purchase the Bonds at a price of 100% of the aggregate principal amount of the Bonds less an underwriting discount of \$315,000. The Company has agreed to reimburse the underwriters for certain expenses incurred by them in connection with the offering of the Bonds. The Underwriters have agreed to purchase all of the Bonds, if any of the Bonds are purchased. After the Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriters, and such Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds

into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof.

The Company has agreed to indemnify the Underwriters and the Issuer against certain civil liabilities, including certain liabilities under Federal securities laws.

J.P. Morgan Securities Inc. also will act as a Broker-Dealer during the ARS Rate Period. The Broker-Dealer will be compensated for its services as Broker-Dealer. J.P. Morgan Securities Inc. has been appointed to serve as Remarketing Agent and will be separately compensated by the Company.

In the ordinary course of its business, the Underwriters and certain of their affiliates have engaged, and may in the future engage, in investment banking, commercial banking or other transactions with the Company and its affiliates.

CONTINUING DISCLOSURE

To the extent that (i) Rule 15c2-12 (the "Rule") of the Commission under the Exchange Act requires the Underwriters (as defined in the Rule) of securities offered hereby (under this heading, if subject to the Rule, the "securities") to determine, as a condition to purchasing the securities, that the Company will covenant to the effect of this undertaking, and (ii) the Rule as so applied is authorized by a Federal law that as so construed is within the powers of Congress, the Company agrees with the record and beneficial owners from time to time of the outstanding securities to provide:

(a) within 120 days after the end of each fiscal year, to each nationally recognized municipal securities information repository and to the State of Ohio information depository, certain financial information and operating data for the prior fiscal year; and

(b) in a timely manner, to each nationally recognized municipal securities information repository or to the Municipal Securities Rulemaking Board, and to the State of Ohio information depository, notice of any of the following events with respect to the securities, if material: (i) principal and interest payment delinquencies (ii) nonpayment related defaults; (iii) unscheduled draws on debt service reserves reflecting difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of holders of the Bonds; (viii) bond calls; (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes.

MISCELLANEOUS

Appendix A to this Official Statement contains or incorporates by reference information concerning the Company, including certain financial information. Such information, the information contained under the caption "FIRST MORTGAGE BONDS AND FIRST MORTGAGE" and the other information in this Official Statement relating thereto has been furnished by the Company. The information contained under the caption "THE ISSUER" has

been furnished by the Issuer. The information contained in the last sentence of the first paragraph under "UNDERWRITING" has been furnished by the Underwriters. Although the Issuer has consented to the use of this Official Statement in connection with the initial issuance and sale of the Bonds, the Issuer has not participated in the preparation of this Official Statement and makes no representation with respect to the accuracy or completeness hereof, except for the information furnished by it, as set forth in this paragraph.

Copies of the Loan Agreement, the Indenture and the Forty-Fifth Supplemental Indenture may be obtained from the Underwriters during the period of the offering or from the Company. The First Mortgage may be inspected at the principal corporate trust office of the First Mortgage Trustee, 101 Barclay Street, New York, New York. Requests to the Company should be directed to Joseph R. Boni III, Vice President and Treasurer, The Dayton Power and Light Company, 1065 Woodman Drive, Dayton, Ohio 45432 (telephone (937) 224-6000).

The use of this Official Statement has been duly authorized by the Issuer.

OHIO AIR QUALITY DEVELOPMENT AUTHORITY

By: /s/ Mark R. Shanahan

Executive Director

APPENDIX A

THE DAYTON POWER AND LIGHT COMPANY

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the Public Reference Section of the Commission at 100 F Street, N.E., Washington, D.C. 20549-1004. Copies of such material can also be obtained from the Public Reference Section of the Commission at its principal office at 100 F Street, N.E., Washington, D.C. 20549-1004 at prescribed rates. Such material may also be obtained electronically at the Commission's website at www.sec.gov.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Commission, pursuant to the Exchange Act, by the Company are incorporated in this Official Statement by reference:

1. The Annual Report, on Form 10-K for the year ended December 31, 2006.
2. The Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007.
3. The Current Reports on Form 8-K filed on February 7, 2007, March 8, 2007, March 30, 2007, May 1, 2007, May 22, 2007, June 11, 2007, July 12, 2007, August 1, 2007, August 14, 2007, August 29, 2007 and October 31, 2007.

All documents filed by the Company pursuant to Section 13(a) or (c), 14 or 15(d) of the Exchange Act hereafter and prior to the termination of this offering, excluding, in each case, information deemed furnished and not filed, shall be deemed to be incorporated by reference herein and to be a part hereof from the date of the filing of such documents.

The Company hereby undertakes to 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 (without exhibits, other than exhibits specifically incorporated by reference into such documents) referred to above which have been or may be incorporated in this Official Statement by reference. Written or telephone requests for such copies should be directed to Joseph R. Boni III, Vice President and Treasurer, The Dayton Power and Light Company, 1065 Woodman Drive, Dayton, Ohio 45432 (telephone (937) 224-6000).

THE COMPANY

The Company is a wholly-owned subsidiary of DPL Inc. The Company is a public utility incorporated in 1911 under the laws of Ohio. It sells electricity to residential, commercial, industrial and governmental customers in a 6,000 square mile area of West Central Ohio.

Electricity for the Company's 24 county service area is primarily generated at eight coal-fired power plants and is distributed to more than 500,000 retail customers. The Company also purchases retail peak load requirements from DPL Energy, LLC, a wholly-owned subsidiary of DPL Inc. Principal industries served include automotive, food processing, paper, plastic manufacturing and defense. The Company's sales reflect the general economic conditions and seasonal weather patterns of the area. In addition, the Company sells any excess energy and capacity into the wholesale market.

The Company's principal executive and business office is located at 1065 Woodman Drive, Dayton, Ohio 45432 and its telephone number is (937) 224-6000.

RISK FACTORS

In considering whether to purchase the Bonds being offered, you should carefully consider the information the Company has included or incorporated by reference in this Appendix A to the Official Statement. In particular, you should carefully consider the information under the heading "Risk Factors" contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 and the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007, each of which is incorporated by reference herein.

SELECTED FINANCIAL INFORMATION

(In millions, except ratios and percentages)

	Nine Months Ended September 30, 2007	Twelve Months Ended December 31,		
		2006	2005	2004
Income Statement Data:	(Unaudited)			
Revenues	\$1,391.1	\$1,385.2	\$1,276.9	\$1,192.2
Operating Expenses, including Cost of Revenues	851.5	982.7	894.3	822.8
Operating Income	287.6	402.5	382.6	369.4
Income Before Income Taxes and Cumulative Effect of Accounting Change ⁽¹⁾	319.0	384.6	353.1	329.8
Net Income	199.5	242.4	211.8	209.0
Ratio of Earnings to Fixed Charges	11.08	11.36	8.81	8.12
		As of September 30, 2007		
		Actual	As Adjusted ⁽²⁾	
		Amount	Percent	Amount Percent
		(Unaudited)		
Capitalization:				
Common Shareholder's Equity	\$1,299.4	61.6	\$1,299.4	59.1
Preferred Stock	22.9	1.1	22.9	1.0
Long-Term Debt	785.5	37.3	875.5	39.8
Total Capitalization	\$2,107.8	100.0	\$2,197.8	100.0

⁽¹⁾ With respect to the income statement data for the nine months ended September 30, 2007, this line item reflects "Income Before Income Taxes".

- (2) As adjusted to reflect the issuance of the 2007 First Mortgage Bonds by the Company to secure its obligation under the Loan Agreement to repay the Loan evidenced thereby.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AND EXPERTS

The consolidated financial statements of the Company as of December 31, 2006 and 2005, and for each of the years in the three-year period ended December 31, 2006, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006, have been incorporated by reference herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference herein.

The statements as to matters of law and legal conclusions made in the documents which are incorporated in this Official Statement by reference with respect to regulation, environmental matters and litigation, and made herein under "FIRST MORTGAGE BONDS AND FIRST MORTGAGE," except insofar as such statements specify the amount of property additions available for the issuance of First Mortgage Bonds or the amount of First Mortgage Bonds issuable on the basis of property additions or retired First Mortgage Bonds, have been reviewed by Timothy G. Rice, Interim Senior Vice President, General Counsel and Corporate Secretary of the Company, and have been made in reliance upon his opinion and upon his authority as an expert.

APPENDIX B

SPECIMEN BOND INSURANCE POLICY



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement

To Financial Guaranty Insurance Company

Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

U.S. Bank Trust National Association, as Fiscal Agent



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Bondholder" shall not include the Company (as such term is defined in the bond documentation).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

U.S. Bank Trust National Association, as Fiscal Agent



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Due for Payment" shall also include, when referring to the principal of a Bond, any date on which the same shall have been duly called for mandatory redemption as a result of the interest on such Bond having been determined, as provided in the Bond documentation, to have become subject to federal income taxation.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

U.S. Bank Trust National Association, as Fiscal Agent

APPENDIX C

PROPOSED TEXT FOR OPINION FROM 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 \$90,000,000 principal amount of State of Ohio Collateralized Air Quality Development Revenue Bonds, 2007 Series A (The Dayton Power and Light Company Project) (the "Bonds"). The Bonds are being issued for the purpose of making a loan to assist The Dayton Power and Light 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 November 1, 2007 (the "Indenture") between the Issuer and The Bank of New York, as trustee (the "Trustee"), and in the Loan Agreement dated as of November 1, 2007 (the "Loan 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 Loan 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 (collectively, "debt service") on the Bonds are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Loan Agreement, and the Company's obligation to make those payments is evidenced and secured by the Company's \$90,000,000 First Mortgage Bonds, Variable Rate Pollution Control Series 2007 Due 2040 (the "First Mortgage Bonds") issued under and secured by the First and Refunding Mortgage, dated as of October 1, 1935 from the Company to Irving Trust Company (now The Bank of New York), as trustee, as amended and supplemented by various indentures supplemental thereto, including the Forty-Fifth Supplemental Indenture dated as of November 1, 2007 (collectively, the "Mortgage"). 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 for the payment of debt service.

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 relied upon the opinion of counsel for the Company contained in the Transcript as to all matters concerning the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Loan Agreement, the Mortgage and the First Mortgage Bonds, the binding effect and priority of the lien of the Mortgage upon properties of the Company and the title of the Company to the properties which have been made the basis for the issuance of the First Mortgage Bonds and all other bonds outstanding under the Mortgage. We have also assumed for purposes of this opinion the due authorization, execution and delivery by, and the binding effect upon and the enforceability against, the Trustee of the Indenture.

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

Respectfully submitted,

APPENDIX D

AUCTION PROCEDURES

Both the Definitions in Article I and the Auction Procedures in Article II are subject to modification or amendment pursuant to Schedule I. In the event of any conflict between Article I or Article II and Schedule I, Schedule I shall prevail. Any reference herein to "Series" such as "a Series of Bonds" or "Bonds of a Series" shall not apply if there is only one Series of Bonds.

ARTICLE I

Definitions

The following words and terms as used in this Appendix D (hereinafter "this Appendix") and elsewhere in the Authorizing Document have the following meanings with respect to Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

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

"All Hold Rate" has the meaning set forth in Schedule I.

"ARS Conversion Date" means with respect to Bonds, the date on which the Bonds of such Series convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

"ARS Rate Period" means, for each Series of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

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

"Auction Agent" means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

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

"Auction Date" means with respect to any Series of Bonds:

(a) *Daily Auction Period.* If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) *Flexible Auction Period.* If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) *Other Auction Periods.* If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (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 or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) 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 second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Series of Bonds is set forth in Schedule I.

“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 Period” means with respect to each Series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to a Series of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the

table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A) When Auctions Occur on this day	(B) Auction Period Generally Begins this day	(C) Auction Period Generally Ends this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a Series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a Series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a Series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a Series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on

the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

"Auction Period Rate" means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

"Auction Procedures" means the procedures for conducting Auctions for Bonds during an ARS Rate Period set forth in this Appendix.

"Auction Rate" means for each Series of Bonds 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 for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

"Authorized Denomination" means \$25,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

"Authorizing Document" has the meaning set forth in Schedule I.

"Available Bonds" means, for each Series of Bonds on each Auction Date, the number of Units 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.

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

"Bonds" has the meaning set forth in Schedule I.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Corporation. The "Broker-Dealer of record" with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent. The Broker-Dealer(s) shall initially be the party(ies) named in Schedule I.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Corporation and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, 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" in addition to any other definition of "Business Day" included in the Authorizing Document, while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

"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 any Series of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

“Corporation” has the meaning set forth in Schedule I.

“Electronic Means” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“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 the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Flexible Auction Period” means with respect to a Series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series of Bonds.

“Hold Order” means an Order to hold the Bonds as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix.

“Index” has the meaning set forth in Schedule I.

“Initial Period” has the meaning set forth in Schedule I.

“Initial Period Rate” has the meaning set forth in Schedule I.

“Interest Payment Date” with respect to Bonds of a Series bearing interest at Auction Period Rates, means, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for such Series of Bonds as set forth in Schedule I and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible 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 the first day of such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

“Issuer” has the meaning set forth in Schedule I.

“Maximum Rate” has the meaning set forth in Schedule I.

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

“Person” has the meaning set forth in Schedule I.

“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, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Record Date” means, notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“Schedule I” means Schedule I to this Appendix.

“Securities Depository” means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation.

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

“Submission Deadline” means, unless changed by Schedule I, 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 if directed in writing by the Trustee or the Corporation 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 Corporation. 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.

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

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

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

“Sufficient Clearing Bids” means for each Series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“Units” has the meaning set forth in Section 2.02(a)(iii) of this Appendix.

“Winning Bid Rate” means for each Series of Bonds, the lowest rate specified in any Submitted Bid of such Series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Series.

ARTICLE II

Auction Procedures

Section 2.01. Orders by Existing Owners and Potential Owners. (a) Prior to the Broker-Dealer Deadline for each Series of Bonds 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, one or more Orders 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 Auction Rate 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 Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

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

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) 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 described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a particular Series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer 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 such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a particular Series to be converted held by such Existing Owner, such Broker-Dealer 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 such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any 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(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

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 Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to Bonds of such Series accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

- (i) the name of the Broker-Dealer;
- (ii) the number of Bidders placing Orders, if requested by the Auction Agent;
- (iii) the aggregate number of Units of Bonds of such Series, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;
- (iv) to the extent that such Bidder is an Existing Owner:
 - (A) the number of Units of Bonds of such Series, if any, subject to any Hold Order placed by such Existing Owner;
 - (B) the number of Units of Bonds of such Series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and
 - (C) the number of Units of Bonds of such Series, if any, subject to any Sell Order placed by such Existing Owner; and
- (v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Issuer, the Corporation, the Trustee or 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.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) 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 on the part of the Broker-Dealer in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) 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(f) 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(f) 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.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

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), (c) or (d) 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 number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Series subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such Series subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such Series equal to the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such Series considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds of such Series considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction

Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee, Issuer or Corporation that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order 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 the Auction Agent has been notified by the Trustee, Issuer or Corporation 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 of a particular Series is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular Series to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

(h) Any bid specifying a rate higher than the Maximum Rate will (i) be treated as a Sell Order if submitted by an Existing Owner and (ii) not be accepted if submitted by a Potential Owner.

Section 2.04. Determination of Auction Period Rate. (a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds 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) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under "Determination of Auction Period Rate" if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (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) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under "Determination of Auction Period Rate" if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate or an All Hold Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails

to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period 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 Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Section 2.05. Allocation of Bonds.

(a) In the event of Sufficient Clearing Bids for a Series of Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each Series of Bonds 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 number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds 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 number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds 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 for a Series of Bonds, Submitted Orders for each Series of Bonds 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 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 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 Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds 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 number of Units of Outstanding Bonds 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 Rate shall be rejected.

(c) If, as a result of the undertakings described in Section 2.05(a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Bonds that is not an integral multiple of an Authorized Denomination 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 the Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of such Authorized Denomination, 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 undertakings described in Section 2.05(a) above, any Potential Owner would be required to purchase less than an Authorized Denomination in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Owners so that the principal amount of the Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing the Bonds on such Auction Date.

Section 2.06. Notice of Auction Period Rate. (a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Series of Bonds for which an Auction was held on such Auction Date:

(i) the Auction Period 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 and the number of Units 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 and the number of Units of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units 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 number of Units 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 number of Units 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 amount of dividend or interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and

(vii) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Series of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner 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 number of Units 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 number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Corporation, Issuer and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07. Index.

(a) If for any reason on any Auction Date the Index shall not be determined as provided in Schedule I, the Index shall be the Index for the prior Business Day.

(b) The determination of the Index as provided in Schedule I and herein shall be conclusive and binding upon the Issuer, the Corporation, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix, 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 ARS Rate Period with respect to each Series of Bonds, the provisions of the Authorizing Document and the definitions contained therein and described in this Appendix, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Authorizing Document by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period 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 affected Outstanding Bonds as required by the Authorizing Document, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Corporation and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Issuer that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Issuer shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer and the Trustee.

During an ARS 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 holder 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 paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

(d) Unless specifically provided otherwise in Schedule I, the Auction Agent shall continue to implement the Auction Procedures notwithstanding the occurrence of an Event of Default under the Authorizing Document.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Corporation, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds of a Series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period 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 Corporation shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, 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 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Series.

(iii) 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 new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Series, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Series 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 Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Corporation, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) 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 by the Bonds. The Auction Agent shall provide notice of the Corporation's direction 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 Corporation and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an

Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Dates relating to a such Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealer for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to Section 2.2(a) of the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

SCHEDULE I

to

AUCTION PROCEDURES

In the event of any conflict between this Schedule I and Appendix D, this Schedule I shall prevail.

Definitions

"All Hold Rate" means, as of any Auction Date, 55% of the Index in effect on such Auction Date.

"Auction Agent" shall initially be The Bank of New York.

"Auction Date" shall include as part of the definition the first Auction Date, which shall be December 20, 2007.

"Auction Period" shall include in the *Six-month Auction Period* either April 30 or October 31.

"Authorized Denomination" means \$25,000 unless another amount is specified here.

"Authorizing Document" means the Trust Indenture, dated as of November 1, 2007, between the Issuer and the Trustee, as amended or supplemented from time to time.

"Bonds" means the \$90,000,000 Collateralized Air Quality Development Revenue Bonds, 2007 Series A (The Dayton Power and Light Company Project) of the State of Ohio issued by the Issuer under the Authorizing Document.

"Broker-Dealer" shall initially mean J.P. Morgan Securities Inc.

"Corporation" means The Dayton Power and Light Company, a public utility and corporation organized and existing under the laws of the State, and its lawful successors and assigns, to the extent permitted by the Agreement.

"Index" means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service or such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits) at 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 Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the Trustee and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Corporation. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

"Initial Period" means the period from and including the date of initial delivery of the Bonds to but not including December 21, 2007. Following an ARS Conversion Date the Initial Period shall mean the period specified as the "Initial Period" in the notice of conversion to an ARS Rate Period.

"Initial Period Rate" means (a) for an Initial Period commencing on the date of initial delivery of the Bonds, the rate set by the managing underwriter prior to delivery of the Bonds and (b) for an Initial Period commencing on an ARS Conversion Date the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the ARS Conversion Date. Such determination shall be conclusive and binding upon the Corporation, the Issuer, the Trustee, the Auction Agent, the Bond Insurer and the Bondholders. Not later than 5:00 p.m., New York City time, on the date of determination of the Initial Period Rate, the managing underwriter or the Broker-Dealer, as the case may be, shall notify the Trustee, the Corporation and the Auction Agent of the Initial Period Rate by Electronic Means.

"Interest Payment Date" includes the first Interest Payment Date, which shall be December 21, 2007 and the semiannual dates referenced with respect to a Flexible Auction Period of 183 or more days shall be May 1 and November 1.

"Issuer" means the Ohio Air Quality Development Authority, a body politic and corporate duly organized and validly existing under the laws of the State of Ohio.

"Maximum Rate" means on any Auction Date the least of (a) 12% per annum or (b) the maximum rate of interest permitted under State law.

"Person" has the meaning given to such term in the Authorizing Document.

"Trustee" means The Bank of New York, a corporation duly organized and validly existing under the laws of the State of New York and duly authorized to exercise corporate trust powers until a successor Trustee shall have become such pursuant to the applicable provisions of the Indenture, and thereafter "Trustee" shall mean the successor Trustee.

Auction Procedures

Determination of Auction Period Rate. The percentage of the Index in Section 2.04(c) is 75%.

APPENDIX E CERTAIN DEFINITIONS

Unless the context otherwise requires, the following terms will, as used herein, have the following meanings. See also APPENDIX D for definitions of certain terms relating to the Auction Procedures.

“Auction Mode” means the period during which the Bonds are in an Initial Period or an ARS Rate Period.

“Auction Rate Bonds” means any Bonds which are in an Auction Mode.

“Authorized Denominations” means (i) with Term Bonds, denominations of \$5,000 and integral multiples thereof, (ii) with Bonds at a Commercial Paper, a Daily or Weekly Rate, denominations of \$100,000 with integral multiples of \$5,000 in excess thereof, and (iii) with Auction Rate Bonds, denominations of \$25,000 and integral multiples thereof.

“Book-Entry System” means the system maintained by the Depository and described herein under “THE BONDS – Auction Rate Bonds–Depository” and “THE BONDS – Book-Entry-Only System.”

“Business Day” means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, or the city or cities in which are located the corporate trust office or payment office of the Trustee, the Company, any Liquidity Facility Issuer, the Auction Agent, the Remarketing Agent, the Registrar or the Paying Agent are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

“Code” means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and Sections of the Code include relevant applicable regulations and proposed regulations thereunder and under the Internal Revenue Code of 1954, as amended, and any successor provisions to those Sections, regulations or proposed regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Bonds.

“Commercial Paper Rate” means, when used with respect to any particular Bond, the interest rate determined for each Commercial Paper Rate Period applicable thereto pursuant to the Indenture.

“Commercial Paper Rate Period” means a period during which a Bond bears interest at a Commercial Paper Rate and described under the caption “THE BONDS–Interest Rate Determination Methods– *Commercial Paper Rate and Commercial Paper Rate Period.*”

“Conversion Date” means a day on which the Bonds are converted to bear interest (i) from one Variable Rate Period to another Variable Rate Period in accordance with the terms of the Indenture, including any change from a Term Rate Period to a Term Rate Period of a different duration, or (ii) from an ARS Rate Period to a Variable Rate Period or (iii) from a Variable Rate Period to an ARS Rate Period.

"Daily Rate" means the interest rate to be determined for the Bonds on each Business Day pursuant to the Indenture and described under the caption "THE BONDS—Interest Rate Determination Methods—*Daily Rate and Daily Rate Period.*"

"Daily Rate Period" means a period during which the Bonds bear interest at a Daily Rate.

"Depository" means The Depository Trust Company (a limited purpose trust company), New York, New York, until a successor Depository will have become such pursuant to the applicable provisions of the Indenture and thereafter, "Depository" will mean the successor Depository. Any Depository will be a depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a Book Entry System to record ownership of beneficial interests in Bonds or bond service charges thereon, and to effect transfers of Bonds, in a Book Entry Form.

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

"Government Obligations" means:

(a) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGs));

(b) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself;

(c) securities of the Resolution Funding Corp. ("REFCORP"), provided that only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable;

(d) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P, provided, however, that if the issue is only rated by S&P (i.e., there is no Moody's rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals;

(e) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

- (1) U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
- (2) Farmers Home Administration (FmHA)
- (3) Federal Financing Bank
- (4) General Services Administration
Participation Certificates
- (5) U.S. Maritime Administration

Guaranteed Title XI financing

- (6) U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures-U.S. government guaranteed
debentures
U.S. Public Housing Notes and Bonds-U.S. government
guaranteed public housing notes and bonds

“Interest Payment Date” means (a) when used with respect to Bonds bearing interest at the Daily or Weekly Rate, the first Business Day of each calendar month to which interest at such rate has accrued; (b) when used with respect to Bonds bearing interest at a Term Rate, the first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is followed by a conversion to a Daily Rate Period, Weekly Rate Period or Commercial Paper Rate Period (but not a conversion to a Term Rate Period of a different duration) will be the first Business Day of the sixth calendar month following the month in which the immediately preceding Interest Payment Date occurs; (c) when used with respect to any particular Bond bearing interest at a Commercial Paper Rate, the first Business Day following the last day of each Commercial Paper Rate Period applicable thereto; and (d) when used with respect to any particular Auction Rate Bond, will have the meaning set forth in APPENDIX D and Schedule I thereto. In any case, the final Interest Payment Date will be the Maturity Date.

“Interest Period” means, for Auction Rate Bonds, the Initial Period for the Auction Rate Bonds and each successive Auction Period thereafter. *“Interest Period”* for Bonds bearing interest at a Variable Rate means the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, as applicable, provided, however, that the first Interest Period for any Bond will begin on (and include) the date of original issuance of the Bonds and the final Interest Period will end on (and include) the day immediately preceding the Maturity Date.

“Liquidity Facility” means an irrevocable direct-pay letter of credit or other credit enhancement or liquidity support facility, or any combination thereof, delivered to and in favor of the Trustee for the benefit of the owners of the Bonds, and includes any Liquidity Facility delivered to the Trustee pursuant to the Indenture.

“Liquidity Facility Issuer” means the issuer of any Liquidity Facility then in effect.

“Maturity Date” means November 1, 2040.

“Maximum Interest Rate” means the lesser of (a) 12% per annum, (b) the maximum rate of interest permitted under State law, or (c) in the case of Bonds bearing interest at a Variable Rate, the maximum rate of interest permitted by any Liquidity Facility then in effect.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency

designated by the Issuer, with the approval of the Company, by notice to the Trustee and the Company.

"Opinion of Bond Counsel" means a written opinion of nationally-recognized bond counsel selected by the Company and acceptable to the Trustee and who is experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions. Bond Counsel may be counsel to the Trustee or the Company.

"Outstanding Bonds," "Bonds outstanding" or "outstanding" as applied to Bonds, means, as of the applicable date, all Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the Indenture, except:

(a) Bonds cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption on or prior to that date;

(b) On or after any purchase date for Bonds pursuant to the Indenture, all Bonds (or portions of Bonds) which are tendered or deemed to have been tendered for purchase on such date, but which have not been delivered to the Paying Agent, provided that funds sufficient for such purchase are on deposit with the Paying Agent in the appropriate accounts in accordance with the provisions hereof;

(c) Bonds, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited with the Trustee or Paying Agent to the appropriate accounts on or prior to that date for the purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds are to be redeemed prior to their maturity, notice of that redemption has been given or arrangements satisfactory to the Trustee have been made for giving notice of that redemption, or waiver by the affected Holders of that notice satisfactory in form to the Trustee has been filed with the Trustee;

(d) Bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Indenture; and

(e) Bonds in lieu of which others have been authenticated under the Indenture.

"Paying Agent" means (i) The Bank of New York, or (ii) any bank or trust company designated as Paying Agent by or in accordance with the Indenture.

"Rate Period" means a period during which a particular rate of interest determined for the Bonds is to remain in effect until a subsequently determined rate of interest becomes effective pursuant to the Indenture. In any case, the final Rate Period will end on (and include) the day immediately preceding the Maturity Date.

"Registrar" means The Bank of New York until a successor Registrar has become such pursuant to the Indenture.

"Regular Record Date" means the close of business on (a) the fifteenth day of the month preceding each Interest Payment Date in the case of Bonds bearing interest at a Term Rate; (b) the last Business Day of the Interest Period in the case of Bonds bearing interest at Daily or

Weekly Rates; (c) the last day of the Commercial Paper Rate Period applicable to such Bond; and (d) the Business Day immediately preceding each Interest Payment Date for Auction Rate Bonds.

"S&P" means Standard & Poor's Ratings Services, and its successors and assigns, except that if such Division is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating organization designated by the Issuer, with the approval of the Company, by notice to the Trustee and the Company.

"State" means the State of Ohio.

"Term Rate" means the interest rate to be determined for the Bonds pursuant to the Indenture for a term of one or more whole years or for a term to the Maturity Date.

"Term Rate Period" means a period during which the Bonds bear interest at a particular Term Rate.

"Variable Rate" means, as the context requires, the Commercial Paper, Daily, Weekly or Term Rate applicable from time to time to the Bonds.

"Variable Rate Period" means, as the context requires, the Commercial Paper Rate Period, Daily Rate Period, Weekly Rate Period or Term Rate Period. —

"Weekly Rate" means the interest to be determined for the Bonds on a weekly basis pursuant to the Indenture and described under the caption "THE BONDS—Interest Rate Determination Methods—*Weekly Rate and Weekly Rate Period.*"

"Weekly Rate Period" means a period during which the Bonds bear interest at a Weekly Rate.

