ADDENDUM DATED MAY 19, 2008
TO OFFICIAL STATEMENT DATED MAY 8, 2008

$209,740,000
City of Riverside, California
Electric Revenue Bonds
Issue of 2008D

Notice is hereby given that there is an inadvertent error in the initial amount cited as the 2008D Bond Reserve Requirement provided on page 3 of the Official Statement, dated May 8, 2008 (the "Official Statement") for the above-referenced financing. The correct initial amount of the 2008D Bond Reserve Requirement is $13,306,643.75.

CITY OF RIVERSIDE, CALIFORNIA

NEW ISSUE - FULL BOOK-ENTRY

RATINGS:
Insured Ratings: S&P: "AAA"; Fitch: "AAA"
Underlying Ratings: S&P: "AA-"; Fitch: "AA-"

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing law, interest on the 2008D Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants described herein, interest on the 2008D Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. See "TAX EXEMPTION" herein regarding certain other tax considerations.

$209,740,000
CITY OF RIVERSIDE, CALIFORNIA
Electric Revenue Bonds
Issue of 2008D

Dated: Date of Delivery **Due: October 1, as shown on the inside cover**

The 2008D Bonds will be issued in book-entry form, without coupons, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2008D Bonds. Purchasers of the 2008D Bonds will not receive physical certificates representing their interests in 2008D Bonds purchased. Principal of, premium, if any, and interest on the 2008D Bonds are payable directly to DTC by U.S. Bank National Association, as Fiscal Agent. Upon receipt of payments of such principal, premium, if any, and interest, DTC is obligated to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2008D Bonds.

The 2008D Bonds will be dated the date of delivery thereof and will mature in the principal amounts and in the years and bear interest at the respective rates of interest per annum, all as set forth on the inside cover hereto. The 2008D Bonds will be issued in fully registered form and will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Interest on the 2008D Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2008.

The 2008D Bonds are subject to optional and mandatory sinking account redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2008D BONDS" herein.

The scheduled payment of principal of and interest on the 2008D Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2008D Bonds by FINANCIAL SECURITY ASSURANCE INC.

The 2008D Bonds are special limited obligations of the City of Riverside, California (the "City"), payable solely from the Net Operating Revenues of the City's Electric System and do not constitute a general obligation or indebtedness of the City. The 2008D Bonds will be payable by the City on a parity with the City's (i) Electric Refunding Revenue Bonds, Issue of 1998, (ii) Electric Revenue Bonds, Issue of 2001, (iii) Electric Refunding Revenue Bonds, Issue of 2003, (iv) Electric Revenue Bonds, Issue of 2004A, and (v) Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A, Issue of 2008B and Issue of 2008C outstanding upon the issuance of the 2008D Bonds, all as more fully described in this Official Statement.

The 2008D Bonds are being issued to (i) finance additional capital projects of the City's Electric System, (ii) fund a reserve account for the 2008D Bonds, and (iii) pay costs of issuance of the 2008D Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. See also "PLAN OF FINANCE."

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The 2008D Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is expected that the 2008D Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about May 20, 2008.

Merrill Lynch & Co.

Citi **De La Rosa & Co.**

Dated: May 8, 2008

$209,740,000
City of Riverside, California
Electric Revenue Bonds
Issue of 2008D

MATURITY SCHEDULE
Base CUSIP: 768874†

Maturity Date (October 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP Number†
2017	$1,875,000	3.625%	3.740%	PV5
2017	1,585,000	4.000	3.740	PW3
2018	1,330,000	3.750	3.870	PX1
2018	2,230,000	4.000	3.870	PY9
2019	3,650,000	4.000	3.990*	PZ6
2020	3,755,000	4.000	4.100	QA0
2021	3,825,000	4.125	4.200	QB8
2022	4,015,000	4.250	4.280	QC6
2023	1,050,000	4.500	4.350*	QD4
2023	5,600,000	5.000	4.350*	QE2
2024	1,500,000	4.500	4.410*	QF9
2024	5,500,000	5.000	4.410*	QG7
2025	425,000	4.500	4.460*	QH5
2025	6,915,000	5.000	4.460*	QJ1
2026	1,050,000	4.500	4.510	QK8
2026	6,480,000	5.000	4.510*	QL6
2027	125,000	4.500	4.560	QM4
2027	7,570,000	5.000	4.560*	QN2
2028	140,000	4.500	4.620	QP7
2028	7,735,000	5.000	4.620*	QQ5
2038	385,000	4.750	4.760	QS1

$48,015,000 5.00% Term Bonds due October 1, 2033 - Yield: 4.720%* - CUSIP†: QR3
$94,985,000 5.00% Term Bonds due October 1, 2038 - Yield: 4.760%* - CUSIP†: QT9

† CUSIP Copyright 2008, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the City nor the Underwriters assume any responsibility for the accuracy of the CUSIP data.

* Priced to call at par on October 1, 2018.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Ronald O. Loveridge, Mayor

Mike Gardner, 1st Ward
Andy Melendrez, 2nd Ward
Rusty Bailey, 3rd Ward
Frank Schiavone, 4th Ward
Chris Mac Arthur, 5th Ward
Nancy Hart, 6th Ward
Steve Adams, 7th Ward

BOARD OF PUBLIC UTILITIES

David E. Barnhart, Chairman

Mary Curtin
Ian J. Davidson
Robert Elliott
Juan "Manny" Sanchez
Robert A. Stockton
Ken L. Sutter
Joe Tavaglione
Berneta M. Titus

CITY OFFICIALS

Bradley J. Hudson, *City Manager*

Paul C. Sundeen,
Assistant City Manager / CFO
Tom DeSantis,
Assistant City Manager
Michael J. Beck,
Assistant City Manager
Gregory P. Priamos,
City Attorney
Colleen J. Nicol,
City Clerk
Brent A. Mason,
Assistant Director of Finance
David H. Wright,
Public Utilities General Manager
Stephen H. Badgett,
Utilities Deputy General Manager / Energy Delivery
Kevin S. Milligan,
Utilities Assistant General Manager / Water Delivery
Gary L. Nolff,
Utilities Assistant General Manager / Resources
Jerry D. Rogers,
Utilities Assistant General Manager /
Finance and Customer Relations

BOND COUNSEL

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

FINANCIAL ADVISOR

Public Financial Management Inc.
San Francisco, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

No dealer, broker, salesman or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2008D Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2008D Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security" or the "Insurer") contained under the caption "BOND INSURANCE" and Appendix G - "SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2008D Bonds; or (iii) the tax exempt status of the interest on the 2008D Bonds.

IN CONNECTION WITH THE OFFERING OF THE 2008D BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2008D BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

The City maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2008D Bonds.

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$209,740,000
CITY OF RIVERSIDE, CALIFORNIA
Electric Revenue Bonds
Issue of 2008D

INTRODUCTION

General

This Official Statement, including the Appendices hereto, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the "City") of $209,740,000 aggregate principal amount of the City's Electric Revenue Bonds, Issue of 2008D (the "2008D Bonds"). The 2008D Bonds are authorized and issued pursuant to the City Charter, Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 17662 adopted by the City Council on January 8, 1991 (the "Master Resolution"), as heretofore amended and supplemented, and as amended and supplemented by a thirteenth supplemental resolution providing for the issuance of the 2008D Bonds (the "Thirteenth Supplemental Resolution"), adopted by the City Council on April 22, 2008. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Thirteenth Supplemental Resolution is hereinafter collectively referred to as the "Resolution."

The City has previously issued and has outstanding for the financing of certain costs of its electric utility system (the "Electric System") (i) Electric Refunding Revenue Bonds, Issue of 1998 (the "1998 Bonds"), issued pursuant to Resolution No. 19262 adopted by the City Council on April 28, 1998 (the "Third Supplemental Resolution"); (ii) Electric Revenue Bonds, Issue of 2001 (the "2001 Bonds"), issued pursuant to Resolution No. 19967 adopted by the City Council on July 24, 2001 (the "Fourth Supplemental Resolution"); (iii) Electric Refunding Revenue Bonds, Issue of 2003 (the "2003 Bonds"), issued pursuant to Resolution No. 20420 adopted by the City Council on May 27, 2003 (the "Fifth Supplemental Resolution"); (iv) Electric Revenue Bonds, Issue of 2004A (the "2004A Bonds"), issued pursuant to Resolution No. 20674 adopted by the City Council on May 11, 2004 (the "Sixth Supplemental Resolution"); (v) Electric Revenue Bonds, Issue of 2004B (the "2004B Bonds"), issued pursuant to Resolution No. 20675 adopted by the City Council on May 11, 2004 (the "Seventh Supplemental Resolution"); (vi) Electric Refunding/Revenue Bonds, Issue of 2005A (the "2005A Bonds"), issued pursuant to Resolution No. 21035 adopted by the City Council on September 13, 2005 (the "Eighth Supplemental Resolution"); and (vii) Electric Refunding/Revenue Bonds, Issue of 2005B (the "2005B Bonds"), issued pursuant to Resolution No. 21036 adopted by the City Council on September 13, 2005 (the "Ninth Supplemental Resolution"), in each case, amending and supplementing the Master Resolution.

Substantially contemporaneously with the issuance of the 2008D Bonds, the City is issuing its: (i) Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A (the "2008A Bonds"), pursuant to a resolution adopted by the City Council on April 22, 2008 (the "Tenth Supplemental Resolution"); (ii) Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B (the "2008B Bonds"), pursuant to a resolution adopted by the City Council on April 22, 2008 (the "Eleventh Supplemental Resolution"); and (iii) Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C (the "2008C Bonds"), pursuant to a resolution adopted by the City Council on April 22, 2008 (the "Twelfth Supplemental Resolution"), in each case, amending and supplementing the Master Resolution. The Tenth, Eleventh, Twelfth and Thirteenth Supplemental Resolutions are collectively referred to herein as the "2008 Resolutions." The City Charter, the Ordinance and the Resolution are hereinafter collectively referred to as the "Law."

On May 1, 2008, and pursuant to a common plan of financing, the City intends to issue and deliver its Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A, Issue of 2008B and Issue of 2008C in an aggregate principal amount of $199,115,000 (collectively, the "Variable Rate 2008 Bonds"). The Variable Rate 2008 Bond proceeds will be applied to refund the 2004B Bonds, the 2005A Bonds and the 2005B Bonds. The Variable Rate 2008 Bonds, together with the 2008D Bonds, are referred to collectively as the "2008 Bonds." The 2008 Bonds, together with $41,410,000 principal amount of the 1998 Bonds, $25,990,000 principal amount of the 2001 Bonds, $46,710,000 principal amount of the 2003 Bonds, and $22,160,000 principal amount of the 2004A Bonds outstanding upon the issuance of the 2008 Bonds, and any future bonds issued under the Resolution on a parity therewith (herein collectively referred to as the "Bonds"), will be equally and ratably secured by the pledge of and charge on the Net Operating Revenues of the Electric System created by the Resolution. The Resolution generally defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses, all as more fully described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues."

The City reserves the right to issue and incur additional parity obligations that do not constitute Bonds ("Parity Debt") from time to time, secured by a pledge and charge on the Net Operating Revenues of the Electric System on a parity with the pledge and charge on the Net Operating Revenues securing the Bonds, to the extent permitted by the Resolution. In connection with the issuance of the Variable Rate 2008 Bonds, the City entered into that certain reimbursement agreement with Bank of America, N.A. The City's payment obligations under such reimbursement agreement, as well as certain reimbursement obligations to the Insurer, constitute Parity Debt. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Debt."

Pursuant to the Resolution, the City reserves the right to issue and incur obligations which are payable from Net Operating Revenues on a basis that is junior and subordinate to the payment of the Bonds or Parity Debt ("Subordinate Obligations"). In 2005, the City entered into variable-to-fixed interest rate swap agreements in initial notional amounts of $82,500,000 in connection with the 2004B Bonds, $57,850,000 in connection with the 2005A Bonds and $57,875,000 in connection with the 2005B Bonds, which interest rate swap agreements constitute Subordinate Obligations pursuant to the Resolution. These existing interest rate swap agreements have been reallocated to the Variable Rate 2008 Bonds, as further described in "PLAN OF FINANCE - Subordinate Interest Rate Swap Agreements."

Purpose of the 2008D Bonds

The 2008D Bonds are being issued to (i) finance additional capital costs of the Electric System, (ii) fund a reserve account for the 2008D Bonds, and (iii) pay costs of issuance of the 2008D Bonds. See "PLAN OF FINANCE - Additional Capital Projects" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security and Rate Covenant

Pursuant to the Law, the 2008D Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof, interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues of the Electric System and other funds, assets and security described under the Resolution, on a parity with the 1998 Bonds, the 2001 Bonds, the 2003 Bonds, the 2004A Bonds and the Variable Rate 2008 Bonds outstanding upon the issuance of the 2008D Bonds, and any other Bonds or Parity Debt issued in the future. Certain of the City's obligations to joint action agencies, including obligations with respect to bonds issued by such joint action agencies, are payable by the City from Gross Operating Revenues as Operating and Maintenance Expenses. See "FINANCIAL RESULTS OF THE ELECTRIC SYSTEM - Outstanding Electric Revenue Bonds and Other Obligations."

The City is obligated by the Resolution to establish rates and collect charges in an amount sufficient to pay debt service on the Bonds and Parity Debt, to meet its expenses of operation and maintenance and to pay

other obligations payable from Net Operating Revenues, with specified requirements as to priority and coverage. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Net Operating Revenues" and "- Rate Covenant." Electric rates are established by the City of Riverside Board of Public Utilities (the "Board"), subject to approval by the City Council, and are not subject to regulation by the California Public Utilities Commission (the "CPUC") or any other state agency.

The general fund of the City is not liable for the payment of the 2008D Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2008D Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Owner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2008D Bonds and premium upon redemption, if any, thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property, or upon any of its income, receipts, or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2008D Bonds, the interest thereon and any premium upon redemption.

Bond Insurance

The scheduled payment of principal of and interest on the 2008D Bonds when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the 2008D Bonds by Financial Security Assurance Inc. See "BOND INSURANCE" herein.

2008D Reserve Account

Pursuant to the Resolution, the Electric Revenue Bonds, Issue of 2008D, Reserve Account (the "2008D Reserve Account") will be funded in an amount equal to the 2008D Bond Reserve Requirement. The 2008D Reserve Account may be funded with money, Authorized Investments, a line of credit, letter of credit, insurance policy, surety bond or other credit source meeting the requirements of the Resolution, or a combination thereof. Initially, the 2008D Bond Reserve Requirement will be funded with a municipal bond debt service reserve insurance policy (the "Reserve Policy") issued by the Insurer. The "2008D Bond Reserve Requirement" is defined as an amount equal to, as of any date of calculation, fifty percent (50%) of the maximum annual debt service on the 2008D Bonds (initially, $3,961,875). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - 2008D Reserve Account."

Joint Powers Agency Obligations

The City has entered into a power purchase contract with the Intermountain Power Agency ("IPA"), a political subdivision of the State of Utah, to purchase a 7.617% share of the output of the Intermountain Power Project generating station and certain related facilities (the "IPP Generating Station"). For the fiscal year ended June 30, 2007, the IPP Generating Station supplied over 40.0% of the energy of the City's Electric System. The contract expires in 2027 and the related final debt service payment will be in 2024.

In addition, the City and other public agencies in Southern California are members of the Southern California Public Power Authority ("SCPPA"). SCPPA is a joint powers agency created for financing, acquiring and constructing electric generating and transmission projects for participation by some or all of its members. The City is a participant in the following SCPPA projects: the Palo Verde Nuclear Generating Station, consisting of three nuclear electric generating units, with a combined rating of 3,975 MW (thermal) near Phoenix, Arizona ("PVNGS") and associated facilities; certain improvements to the generating units at the hydroelectric power plant of the Hoover Dam (the "Hoover Uprating Project"); a 256 mile, 500 kV alternating current ("AC") transmission line from the Phoenix, Arizona area to the area of Boulder City, Nevada (the "Mead-Phoenix Transmission Project"); a 202 mile, 500 kV AC transmission line from the area of Boulder City, Nevada, to the Adelanto Substation in Southern California (the "Mead-Adelanto Transmission Project"); and an approximately 490 mile, 500 kV direct current ("DC") transmission line from the area of

Lynndyl, Utah to Adelanto, California (the "Southern Transmission System" or the "STS"). See "THE ELECTRIC SYSTEM - Power Supply" and "- Transmission Facilities."

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

The Electric System

Except for a few small areas of recent annexations, the Electric System serves the entire area of the City. At this time, the City has no direct access customers. The City's electric requirements are provided by a variety of resources described later in this Official Statement. The Electric System is supplied by seven 69 kV sub-transmission lines which originate at the Vista Substation of Southern California Edison Company ("SCE") to provide bulk delivery of energy to the City's internal 69 kV sub-transmission system. For the fiscal year ended June 30, 2007, the number of meters of the Electric System was 105,226 and the total megawatt-hours ("MWh") generated and purchased were 2,651,000. A new historic system peak of 604 MW was set on August 31, 2007.

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2008D Bonds to provide certain financial information and operating data relating to the Electric System and to provide notices of the occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE" and Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Summaries and References to Documents

Brief descriptions of the 2008D Bonds, the security and sources of payment therefor, the Electric System and summaries of the Resolution and certain other documents are included elsewhere in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2008D Bonds, the Resolution and any other documents are qualified in their entirety by reference to such documents, copies of which are available for inspection at the office of the City Clerk located at Riverside City Hall, 3900 Main Street, Riverside, California 92522, telephone: (951) 826-5557. A copy of the most recent annual report of the Electric System may be obtained from the Utilities Assistant General Manager / Finance and Customer Relations of the City of Riverside Public Utilities Department (the "Department"), at the same address, and is also available on the Department's website at www.riversidepublicutilities.com. Information set forth on such website is not incorporated by reference herein. Financial and statistical information set forth herein, except for the audited financial statements included in Appendix B, is unaudited. The source of such information is the City unless otherwise stated. Terms not defined herein shall have the meanings as set forth in the respective documents.

PLAN OF FINANCE

Additional Capital Projects

The 2008D Bonds are being issued to finance additional capital projects of the City's Capital Improvement Program (described below) of the Electric System, to fund the 2008D Reserve Account, and to pay the costs of issuance related to the 2008D Bonds.

The City has prepared an Electric System Capital Improvement Program for the fiscal years ending June 30, 2008 through June 30, 2012 (the "Capital Improvement Program"). The total cost of the Capital Improvement Program over those five years is estimated to be $391 million, of which over $300 million is expected to be financed with bond proceeds, including the net proceeds of the 2008D Bonds and proceeds of future bond issues. The portion of the Capital Improvement Program to be financed with the net proceeds of the 2008D Bonds is referred to as the "2008D Project."

The Capital Improvement Program contains two major projects. The first project is the construction of the $125 million Riverside Transmission Reliability Project ("RTRP"), a 230-69 kV transmission substation as a second point of interconnection to the California transmission grid, located within the City. This project will reduce the City's dependence on SCE's Vista substation for supply of electric energy. The second project is the construction of two additional 49 MW peaking units at the Riverside Energy Resource Center ("RERC") for $110 million, adjacent to Units 1 and 2, that will help the City's customers to avoid "rolling blackouts" on peak days. At this time, the City expects these two projects to be the main components of the 2008D Project.

The other projects contained in the Capital Improvement Program and scheduled for construction are recurring projects (small system improvements, services to customers and purchases of certain types of equipment including wood poles, underground conduit, transformers, meters, capacitors and minor substation equipment), capital improvements relating to the City's ownership interest at San Onofre Nuclear Generation Station ("SONGS"), including site improvements, security upgrades and the steam generator replacement for both units which could result in a life extension of 10 years or more, replacement of obsolete equipment and additions at various substations, including the installation power transformers, conversion of overhead distribution lines to underground facilities, construction of overhead and underground feeders, distribution facilities to serve new customers, streetlight retrofit projects for the Riverside Renaissance to replace obsolete street lights in downtown neighborhoods, replacement of deteriorating underground cable, conversion of distribution lines from 4 kV to 12 kV, a new Customer Information System for utility billing, expansion of the City's fiber communication system, major street light projects, and improvements to the City's 40 MW simple-cycle combustion turbines ("Springs"), and RERC facilities. The City may substitute other capital projects determined by the City to be undertaken for the Electric System for any component of the 2008D Project. For additional information on the City's Capital Improvement Program, see "THE ELECTRIC SYSTEM - Capital Improvement Program" herein.

Refunded Prior Bonds

Substantially contemporaneously with the issuance of the 2008D Bonds, the City expects to issue and deliver its Variable Rate 2008 Bonds. Net proceeds of the Variable Rate 2008 Bonds, together with certain other available funds, have been applied to (i) redeem on May 7, 2008, all outstanding 2004B Bonds in an aggregate principal amount of $82,500,000; (ii) redeem on May 8, 2008, all outstanding 2005A Bonds in an aggregate principal amount of $57,275,000; and (iii) redeem on May 12, 2008, all outstanding 2005B Bonds in an aggregate principal amount of $57,325,000(collectively, the "Refunded Prior Bonds"). These Refunded Prior Bonds were previously issued as auction rate bonds. The City's plan of refunding is intended to reduce the City's exposure to certain market factors for bonds bearing interest at auction rates due to the volatility, uncertainty and disruption in such markets and, upon issuance of the Variable Rate 2008 Bonds, the City expects to no longer have any auction rate Bonds secured by the Net Operating Revenues of the City's Electric System.

The risk of interest rate volatility with respect to each series of the Refunded Prior Bonds has been hedged through the execution by the City of certain interest rate swap agreements. See "- Subordinate Interest Rate Swap Agreements" below.

Subordinate Interest Rate Swap Agreements

Upon the issuance of the 2008D Bonds, the City expects to have $545,125,000 in aggregate principal amount of Bonds Outstanding, of which $199,115,000 will bear interest at variable rates, consisting solely of the Variable Rate 2008 Bonds.

2004 Swap Agreement. The City previously entered into an interest rate swap agreement in the form of an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement and Schedule and related Transactions thereto with Merrill Lynch Capital Services, Inc. (the "2004 Swap Provider") in connection with the 2004B Bonds (the "2004 Swap Agreement") in an initial notional amount of $82,500,000 for the purpose of converting the floating rate interest payments the City is obligated to make on the 2004B Bonds into substantially fixed rate payments.

The 2004 Swap Agreement has a term equal to the final maturity of the 2004B Bonds. Pursuant to the Transaction under the 2004 Swap Agreement, the City pays a fixed rate of interest on initial notional amounts equal to the principal amount of the 2004B Bonds. In return, the 2004 Swap Provider pays a variable rate of interest equal to a percentage of the London Interbank Offered Rate ("LIBOR") one month index plus 12 basis points on a like notional amount for the 2004B Bonds. The periodic amounts payable by a party under the 2004 Swap Agreement are netted against the payments to be received by such party thereunder. On the delivery date of the 2008A Bonds, the 2004 Swap Agreement was reallocated to the 2008A Bonds. A portion of the 2008A Bonds, however, will remain unhedged subsequent to such reallocation.

2005 Swap Agreements. The City also entered into interest rate swap agreements in the form of an ISDA Master Agreement and Schedule and related Transactions thereto with Bear Stearns Capital Markets Inc. (the "2005 Swap Provider") in connection with the 2005A Bonds and the 2005B Bonds (each, a "2005 Swap Agreement" and collectively, the "2005 Swap Agreements") for the purpose of converting the floating rate interest payments the City is obligated to make on the 2005A Bonds and the 2005B Bonds into substantially fixed rate payments.

The 2005 Swap Agreements have terms equal to the final maturity of the related Series of 2005 Bonds. Pursuant to the respective Transaction under the 2005 Swap Agreements, the City pays a fixed rate of interest on initial notional amounts equal to the respective principal amounts of the 2005A Bonds and the 2005B Bonds. In return, the 2005 Swap Provider pays a variable rate of interest equal to a percentage of the LIBOR one month index plus 12 basis points on a like notional amount for the 2005A Bonds and the 2005B Bonds, as appropriate. The periodic amounts payable by a party under the respective 2005 Swap Agreement are netted against the payments to be received by such party thereunder. On the delivery date of the 2008B Bonds and the 2008C Bonds, the 2005 Swap Agreements were reallocated to the 2008B Bonds and the 2008C Bonds. See information under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Swap Agreements" for certain information related to the 2005 Swap Provider.

Amounts Received under Swap Agreements. Amounts periodically received by the City from the 2004 Swap Provider under the 2004 Swap Agreement and from the 2005 Swap Provider under the 2005 Swap Agreements constitute Gross Operating Revenues under the Resolution. Both the City and the 2004 Swap Provider or the 2005 Swap Provider have the right to terminate the respective Swap Agreement prior to their stated termination date under certain conditions, in which event a termination payment may be owed by either party. Such termination payment could be substantial. Any amounts due from the City under the 2004 Swap Agreement and the 2005 Swap Agreements, including regularly scheduled payments and any amount due upon an early termination of the Swap Agreements are payable by the City from Net Operating Revenues on a basis that is junior and subordinate to the Bonds and Parity Debt. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Swap Agreements" herein.

DESCRIPTION OF THE 2008D BONDS

The following is a summary of certain provisions of the 2008D Bonds. Reference is made to the 2008D Bonds for the complete text thereof and to the Resolution for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION."

General

The 2008D Bonds will be dated their date of delivery, will mature on the dates and in the respective amounts, and will bear interest at the respective rates per annum shown on the inside cover of this Official Statement. The 2008D Bonds may be purchased in book-entry form only, in principal amounts of $5,000 or any integral multiple thereof. Interest on the 2008D Bonds will be payable on April 1 and October 1 of each year, commencing October 1, 2008, to the owners of record at the close of business on the 15th day of the preceding calendar month (a "Record Date") by check mailed by first-class mail to the persons whose names appear on the registration books of the Fiscal Agent as the registered Owners of such 2008D Bonds as of the close of business on the Record Date at such persons' addresses as they appear on such registration books, except that an Owner of $1,000,000 or more in principal amount of 2008D Bonds may be paid interest by wire transfer to an account in the United States if such Owner makes a written request of the Fiscal Agent at least thirty (30) days preceding any interest payment date specifying the wire transfer instructions for such Owner. Such notice may provide that it will remain in effect for later interest payments until changed or revoked by another written notice. See Appendix F - "BOOK-ENTRY ONLY SYSTEM."

Each 2008D Bond shall bear interest from the interest payment date before the date of authentication thereof unless it is authenticated during the period after a Record Date but on or before the next interest payment date, in which event it shall bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it shall bear interest from the dated date of the 2008D Bonds.

So long as any 2008D Bond is registered in the name of Cede & Co., as nominee of DTC, procedures with respect to the transfer of ownership, redemption, and the payment of principal, redemption price, premium, if any, and interest on such Bond shall be in accordance with arrangements among the City, the Fiscal Agent and DTC. See Appendix F - "BOOK-ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption. The 2008D Bonds maturing on or before October 1, 2018, are not subject to redemption prior to maturity. The 2008D Bonds maturing on and after October 1, 2019, are subject to optional redemption by the City on any Interest Payment Date on or after October 1, 2018, as a whole or in part in an Authorized Denomination, at a Redemption Price of 100% of the principal amount thereof to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

Mandatory Sinking Account Redemption. The 2008D Bonds maturing on October 1, 2033, are subject to mandatory sinking account redemption, in part, on October 1, 2029, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2008D Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Electric Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount	Redemption Date (October 1)	Principal Amount
2029	$8,040,000	2032	$10,215,000
2030	9,320,000	2033†	10,700,000
2031	9,740,000		

† Maturity

The 2008D Bonds maturing on October 1, 2038, are subject to mandatory sinking account redemption, in part, on October 1, 2034, and on each October 1 thereafter, at a redemption price equal to 100% of the principal amount of such 2008D Bonds to be redeemed, from Mandatory Sinking Account Payments required to be deposited in the Principal Account in the Bond Service Account of the Electric Revenue Fund, plus accrued interest thereon to the date of redemption, in the principal amounts set forth in the following table, without premium:

Redemption Date (October 1)	Principal Amount	Redemption Date (October 1)	Principal Amount
2034	$11,195,000	2037	$24,140,000
2035	11,700,000	2038†	24,960,000
2036	22,990,000		

† Maturity

Mandatory Sinking Account Payments for 2008D Bonds shall be reduced to the extent the City has purchased 2008D Bonds and surrendered such 2008D Bonds to the Fiscal Agent for cancellation. If 2008D Bonds have been redeemed as provided for under the caption "- Optional Redemption" above, then the amount of the 2008D Bonds so redeemed shall be credited to such future Mandatory Sinking Account Payments for such 2008D Bonds as nearly as practicable, pro rata or as otherwise provided by the City. A reduction of Mandatory Sinking Account Payments in any 12 month period ending on October 1 will reduce the principal amount of 2008D Bonds redeemed on that October 1.

Selection of 2008D Bonds for Redemption. If less than all the 2008D Bonds are to be redeemed, the maturities of the 2008D Bonds to be redeemed may be selected by the City. The City shall give written notice of its selection not later than 15 business days (or such shorter period as may be agreed to by the Fiscal Agent) before the last day on which the Fiscal Agent may give notice of redemption to the Owners of the 2008D Bonds. If the City does not give notice of its selection, such Fiscal Agent shall select the 2008D Bonds to be redeemed in inverse order of maturity. Except as otherwise provided in the Thirteenth Supplemental Resolution, if less than all of the 2008D Bonds of like maturity are to be redeemed, the particular 2008D Bonds or portions of Bonds to be redeemed shall be selected at random by the Fiscal Agent in such manner as the Fiscal Agent in its discretion may deem fair and appropriate.

Notice of Redemption. The Fiscal Agent shall give notice of the redemption of 2008D Bonds to (i) the Owners of the 2008D Bonds called for redemption, (ii) certain securities depositories and (iii) one or more information services. Notice of such redemption shall be given by first class mail to the Owners of the 2008D Bonds designated for redemption at their addresses appearing on the bond registration books, not less than 30 days nor more than 60 days prior to the redemption date. The failure by the Fiscal Agent to give notice to any one or more of the securities depositories or information services or failure of any Owner to receive notice of redemption or any defect in such notice shall not affect the sufficiency of the proceedings for the redemption of 2008D Bonds.

In the event of an optional redemption of 2008D Bonds, if the City shall not have deposited or otherwise made available to the Fiscal Agent or other applicable party the money required for the payment of

the redemption price of the 2008D Bonds to be redeemed at the time of such mailing, such notice of redemption shall state that the redemption is expressly conditioned upon the timely deposit of sufficient funds therefore with the Fiscal Agent or other applicable party.

When notice of redemption has been given as provided in the Resolution, the 2008D Bonds or portions thereof so called for redemption shall become due and payable on the redemption date, and upon presentation and surrender of such 2008D Bonds at the place specified in such notice of redemption, such 2008D Bonds shall be redeemed and paid at said redemption price. If on the redemption date, moneys for the redemption of the 2008D Bonds to be redeemed shall be available therefor on the redemption date, then from and after the redemption date, interest on the 2008D Bonds to be redeemed shall cease to accrue.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Net Operating Revenues

Pursuant to the Law, the 2008D Bonds are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof and interest thereon, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the 1998 Bonds, the 2001 Bonds, the 2003 Bonds, the 2004A Bonds and the Variable Rate 2008 Bonds outstanding upon the issuance of the 2008D Bonds and any other Bonds or Parity Debt issued in the future. All capitalized terms used in this Official Statement not otherwise defined shall have the meanings provided in the Resolution.

The Resolution defines Net Operating Revenues as Gross Operating Revenues less Operating and Maintenance Expenses, plus (for purposes of determining compliance with the City's rate covenant only) the amounts on deposit as of the date of determination in any unrestricted funds of the Electric System designated by the City Council by resolution and available for the purpose of paying Operating and Maintenance Expenses and/or debt service on the Bonds. Gross Operating Revenues consist of (i) all revenues of the Electric System from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction, and (ii) all amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps ("Subordinate Swap Receipts"), including the Swap Agreements. Operating and Maintenance Expenses are the expenses of operating and maintaining the Electric System, including payments to certain joint powers agencies and any necessary contribution to the retirement system of the Electric System employees.

The general fund of the City is not liable for the payment of the 2008D Bonds, any premium thereon upon redemption prior to maturity, or their interest, nor is the credit or the taxing power of the City pledged for the payment of the 2008D Bonds, any premium thereon upon redemption prior to maturity, or their interest. No Bondowner may compel the exercise of the taxing power of the City or the forfeiture of any of its property. The principal of and interest on the 2008D Bonds and any premium upon the redemption thereof prior to maturity are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues of the Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the 2008D Bonds, interest thereon and any premium upon redemption.

Resolution Flow of Funds

The City has created the Electric Revenue Fund pursuant to the City Charter, which secures the payment of the Bonds and Parity Debt. The Electric Revenue Fund includes several accounts, namely, the Bond Service Account, the Renewal and Replacement Account and the Surplus Account. The Resolution provides that the Interest Account and the Principal Account shall be created as subaccounts within the Bond Service Account. The Electric Revenue Fund and all of the accounts and subaccounts therein are held and

administered by the City Treasurer. The 1998 Reserve Account has been created under the Third Supplemental Resolution, the 2001 Reserve Account has been created under the Fourth Supplemental Resolution, the 2003 Reserve Account has been created under the Fifth Supplemental Resolution, the 2004 Reserve Account has been created under the Sixth Supplemental Resolution, the 2008A Reserve Account has been created under the Tenth Supplemental Resolution, the 2008B Reserve Account has been created under the Eleventh Supplemental Resolution, the 2008C Reserve Account has been created under the Twelfth Supplemental Resolution, and the 2008D Reserve Account related to the 2008D Bonds will be created under the Thirteenth Supplemental Resolution, all of which are held by the Fiscal Agent. Simultaneously with the issuance and delivery of the Variable Rate 2008 Bonds, the funds held under the 2004 Reserve Account related to the 2004B Bonds created under the Seventh Supplemental Resolution and the 2005 Reserve Account related to the 2005 Bonds created under the Eighth and Ninth Supplemental Resolutions are expected to be transferred and applied in connection with the refunding and defeasance of the Refunded Prior Bonds.

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

Operating and Maintenance Expenses. As soon as practicable in each month, the Treasurer will provide for the payment of the Operating and Maintenance Expenses of the Electric System for that month, prior to the payment or provision for payment of (i) the interest on and the principal of the 2008D Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.

Interest Account. The Treasurer will set aside (i) an amount sufficient on a monthly pro rata basis to pay the aggregate amount of the interest which will become due and payable on Bonds with a fixed rate of interest on the next interest payment date (excluding interest for which there are moneys deposited in the Interest Account), (ii) 110% of the interest which the Treasurer estimates in his or her reasonable judgment will accrue during that month on Bonds with a variable rate of interest, and (iii) only after all deposits have been made for such month in the Principal Account and the Reserve Accounts as described below, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of such Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (a) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (b) the payments becoming due and payable under all Subordinate Obligations during that month as described in clause (iii) above. Payments of interest for Parity Debt that are required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account.

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

mandatory sinking fund payments with respect to, such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Principal Account.

Reserve Accounts; Supplemental Deposit. The Treasurer will deposit as soon as practicable in each month in the 1998 Reserve Account, the 2001 Reserve Account, the 2003 Reserve Account, the 2004 Reserve Account, the 2008A Reserve Account, the 2008B Reserve Account, the 2008C Reserve Account, the 2008D Reserve Account, and any other reserve account for Bonds established pursuant to a Supplemental Resolution and in any reserve account established for Parity Debt (either as replenishment or as reimbursement of draws on surety bonds credited to such reserve accounts) as soon as practicable in each month upon the occurrence of any deficiency therein, (i) one-twelfth of the aggregate amount of any unreplenished prior withdrawal from such reserve account and (ii) the full amount of any deficiency due to any required valuations of the investments in such reserve account until the balance is at least equal to the amount required to restore such reserve account to the amount required to be maintained therein.

The Treasurer will, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount described in clause (iii) under "Interest Account" above.

Excess Earnings and Certain Other Amounts. The Treasurer will deposit in the excess earnings or rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under section 148 of the Code and applicable regulations of the United States Treasury) for the 1998 Bonds, the 2001 Bonds, the 2003 Bonds, 2004A Bonds, the Variable Rate 2008 Bonds and the 2008D Bonds, and, to the extent determined appropriate, as to the 2004B Bonds and the 2005 Bonds, and any other Bonds or Parity Debt the amount, if any, at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

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

Surplus Account. On the first day of each calendar month, any amounts remaining in the Electric Revenue Fund after the above transfers and uses have been made, will be transferred to the Surplus Account and may be: (i) invested in any Authorized Investments, (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time in the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, but if the Bonds are subject to call and redemption prior to maturity, the purchase price (including brokerage or other charges, but excluding accrued interest) will not exceed the redemption price on the next interest payment date of such Bonds so purchased, or (iii) used in any lawful manner.

Application of Funds and Accounts. The Treasurer shall transfer from the Interest Account to the Fiscal Agent an amount sufficient to pay the interest on the 2008D Bonds as it will become due and payable (including accrued interest on any 2008D Bonds purchased or redeemed prior to maturity). The Treasurer shall transfer from the Principal Account to the Fiscal Agent an amount sufficient to pay the Bond Obligation of the 2008D Bonds maturing by their terms on October 1 of the years in which each Series of 2008D Bonds remain outstanding. The Treasurer shall transfer from the Principal Account to the Redemption Account an amount sufficient to redeem the appropriate Series of the 2008D Bonds to be redeemed on that October 1 of each year in which the appropriate Series of the 2008D Bonds are to be redeemed from amounts on deposit in the Principal Account.

Rate Covenant

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

(a) Operating and Maintenance Expenses;

(b) the interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds as they become due and payable;

(c) all other payments required for compliance with the Resolution or any Supplemental Resolutions; and

(d) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under the Subordinate Obligations).

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

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

2008D Reserve Account

Under the Resolution, the City may, but is not required to, establish, pursuant to a Supplemental Resolution, a separate reserve fund or account for any Series of Bonds issued thereunder. The Thirteenth Supplemental Resolution provides that the Fiscal Agent shall establish, maintain and hold in trust the 2008D Reserve Account related to the 2008D Bonds. Pursuant to the Thirteenth Supplemental Resolution, the City shall at all times maintain an amount equal to the 2008D Bond Reserve Requirement in the 2008D Reserve Account until the 2008D Bonds are discharged in accordance with the Resolution. Initially, the 2008D Bond Reserve Requirement will be satisfied by the delivery of the Reserve Policy. The Resolution also requires that there be maintained in the 1998 Reserve Account for the 1998 Bonds, in the 2001 Reserve Account for the 2001 Bonds, in the 2003 Reserve Account for the 2003 Bonds, in the 2004 Reserve Account for the 2004A Bonds, in the 2008A Reserve Account, the 2008B Reserve Account and the 2008C Reserve Account for the appropriate Series of the Variable Rate 2008 Bonds outstanding and in each other debt service reserve account established pursuant to a Supplemental Resolution, the amount, if any, required to be deposited therein.

Moneys in the 2008D Reserve Account will secure only the payment of the 2008D Bonds and may be withdrawn solely (i) to pay principal of and interest on the 2008D Bonds in the event moneys in the Principal Account and the Interest Account are insufficient or (ii) to make the final principal and interest payment on all outstanding 2008D Bonds. Whenever amounts are withdrawn from the 2008D Reserve Account, the amount in said account shall be restored as described above in "- Resolution Flow of Funds - Reserve Accounts; Supplemental Deposit."

Moneys in other reserve accounts established under the Resolution will not be available to make payments of principal of, premium, if any, and interest on the 2008D Bonds. In the event that the 1998

Reserve Account, the 2001 Reserve Account, the 2003 Reserve Account, the 2004 Reserve Account, the 2008A Reserve Account, the 2008B Reserve Account, the 2008C Reserve Account or the 2008D Reserve Account contains moneys in excess of the amount required to be maintained therein, such excess moneys will be transferred to the Electric Revenue Fund.

At the option of the City, amounts required to be held in the 2008D Reserve Account may be substituted, in whole or in part, by the deposit of a line of credit, letter of credit, insurance policy, surety bond or other credit source in a stated amount equal to the amounts so substituted, provided that, among other things, the substitution of such credit facility will not result in a withdrawal or downgrading of any rating of the 2008D Bonds then in effect.

Additional Bonds and Parity Debt

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

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

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

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

(b) An allowance for earnings arising from any increase in the charges made for the use of the Electric System which has become effective prior to the incurring of such additional indebtedness but which, during all or any part of such fiscal year or such 12 consecutive month period within the last completed 18-month period, was not in effect, in an amount equal to the amount by which the Net Operating Revenues

would have been increased if such increase in charges had been in effect during the whole of such fiscal year or such 12 consecutive month period within the last completed 18-month period, as shown by the Certificate of the City.

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

Subordinate Debt. Nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate (including, but not limited to, Subordinate Obligations) to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinate obligations are payable as to (but not limited to) principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents. Further, nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith and which subordinated obligations are payable only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues (i) first, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required by this Resolution or any Parity Debt documents and (ii) thereafter, for payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

Swap Agreements

As described under "PLAN OF FINANCE - Subordinate Interest Rate Swap Agreements," the City entered into the 2004 Swap Agreement with the 2004 Swap Provider and the 2005 Swap Agreements with the 2005 Swap Provider whereby the City effectively fixed the interest rate on the 2004B Bonds and the 2005 Bonds of each Series. Concurrently with the issuance and delivery of the Variable Rate 2008 Bonds, the 2004 Swap Agreement was reallocated to the 2008A Bonds and each of the 2005 Swap Agreements were reallocated to the 2008B Bonds and the 2008C Bonds, respectively.

The obligation of the City to make regularly scheduled payments to the Swap Providers under the Swap Agreements is subordinate to the City's obligation to make payments on the Bonds and Parity Debt. Both the City and the Swap Providers will have the right to terminate the Swap Agreements prior to their respective stated termination dates under certain conditions, and the City may be required to make a substantial termination payment to the respective Swap Provider. In the event of early termination of the Swap Agreements, there can be no assurance that (i) the City will receive any termination payment payable to the City by the respective Swap Provider , (ii) the City will have sufficient amounts to pay termination payments payable by it to the respective Swap Provider, or (iii) the City will be able to obtain replacement Swap Agreements with comparable terms.

There is no guarantee that the floating rate payable to the City pursuant to the Swap Agreements will match the variable interest rate on the related Bonds at all times or at any time. Under certain circumstances, the respective Swap Provider may be obligated to make a payment to the City under the Swap Agreement that is less than the interest due on the related Bonds. In such event, the City would be obligated to pay such insufficiency from Net Operating Revenues. See "PLAN OF FINANCE - Subordinate Interest Rate Swap Agreements" herein.

Certain Information Related to the 2005 Swap Provider. JPMorgan Chase & Co. announced it is acquiring The Bear Stearns Companies Inc. The Boards of Directors of both companies have unanimously

approved the transaction. The transaction will be a stock-for-stock exchange. JPMorgan Chase will exchange 0.05473 shares of JPMorgan Chase common stock per one share of Bear Stearns stock. Based on the closing price of March 15, 2008, the transaction as originally announced would have had a value of approximately $2 per share. On March 24, 2008, it was reported that the value of this transaction would be $10 per share. Effective on the date of the initial announcement, JPMorgan Chase began guaranteeing the trading obligations of Bear Stearns and its subsidiaries and providing management oversight for its operations. Other than shareholder approval, the closing is not subject to any material conditions. The transaction is expected to have an expedited close by the end of the calendar second quarter 2008. The Federal Reserve, the Office of the Comptroller of the Currency and other federal agencies have given all necessary approvals. The City is unable to predict whether the proposed transaction will be approved by the shareholders and, if approved, then as to the final per share value to be received by the shareholders.

BOND INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. No representation is made by the City or the Underwriters as to the accuracy or completeness of such information or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to Appendix G for a specimen of the Insurer's Policy.

Bond Insurance Policy

Concurrently with the issuance of the 2008D Bonds, Financial Security Assurance Inc. will issue its Municipal Bond Insurance Policy for the 2008D Bonds. The Policy guarantees the scheduled payment of principal of and interest on the 2008D Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement. See Appendix G - "SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY" attached hereto.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2007, Financial Security's consolidated policyholders' surplus and contingency reserves were approximately $2,703,119,716 and its total net unearned premium reserve was approximately $2,274,576,959 in accordance with statutory accounting principles. At December 31, 2007, Financial Security's consolidated shareholder's equity was approximately $2,962,301,379 and its total net unearned premium reserve was approximately $1,796,984,819 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2007 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the 2008D Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security

Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the 2008D Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the 2008D Bonds or the advisability of investing in the 2008D Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the 2008D Bonds are as follows:

Sources:	
Principal Amount of 2008D Bonds	$209,740,000.00
Net Original Issue Premium	4,548,185.40
Total Sources	$214,288,185.40
Uses:	
Construction Fund	$210,000,000.00
Underwriters' Discount	555,769.01
Costs of Issuance[1]	3,732,416.39
Total Uses	$214,288,185.40

(1) Includes legal fees, Policy and Reserve Policy premiums, Fiscal Agent fees, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2008D Bonds.

THE PUBLIC UTILITIES DEPARTMENT

Management of the Public Utilities Department

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

Management of the Department is as follows:

Mr. David H. Wright, Public Utilities General Manager, is a Certified Public Accountant. He received his Bachelor of Arts and Master of Business Administration degrees from California State University, Fullerton. He has been with the City since 1988, and has nearly 20 years of experience in municipal government, including five years as Utilities Assistant Director of Finance and Administration and five years as the Utilities Deputy Director.

Mr. Stephen H. Badgett, Utilities Deputy General Manager / Energy Delivery, holds a Bachelor of Science degree in Electrical Engineering from the University of Memphis. He has been with the Department since 1990 holding positions of Senior and Principal Electrical Engineer. Prior to his work at the Department,

Mr. Badgett was with Memphis Light Gas and Water for 16 years and has been involved with public power for nearly 34 years.

Mr. Kevin S. Milligan, Utilities Assistant General Manager / Water Delivery, holds a Bachelor of Science degree in Engineering from California State Polytechnic University, Pomona and a Master of Business Administration from the University of Redlands. He has been with the City since 1984, and has nearly 24 years of experience in the water industry.

Mr. Gary L. Nolff, Utilities Assistant General Manager / Resources, holds a Bachelor of Science degree in Business and Management from the University of Redlands. He has over 34 years in the electric utilities industry, including 17 years as Power Resources Projects / Contracts Manager (15 of which are with the City), and 14 years as a generation station and bulk power electric system operator with SCE and the United States Army. Mr. Nolff has been with the Department since 1990.

Mr. Jerry D. Rogers, Utilities Assistant General Manager / Finance and Customer Relations, holds a Bachelor of Science degree in Business Administration / Finance, from California State University, Long Beach. He has 26 years of prior finance-related experience, including 15 years with the City, where he was Finance Director/Treasurer from 1997-2000.

Board of Public Utilities

The Board, created by Article XII, Section 1201 of the City Charter, currently consists of nine members appointed by the City Council. As set forth in said Article XII, the Board, among other things, has the power and obligation to: (1) consider the annual budget for the Department during the process of its preparation and make recommendations with respect thereto to the City Council and the City Manager; (2) within the limits of the budget of the Department, authorize and award bids for the purchase of equipment, materials or supplies, exceeding the sum of $50,000, and authorize the acquisition, construction, improvement, extension, enlargement, diminution or curtailment of all or any part of any public utility system, and no such purchase, acquisition, construction, improvement, extension, enlargement, diminution or curtailment may be made without such authorization; (3) within the limits of the budget of the Department, make appropriations from the contingency reserve fund for capital expenditures directly related to the appropriate utility function; (4) require of the City Manager monthly reports of receipts and expenditures of the Department, segregated as to each separate utility, and monthly statements of the general condition of the Department and its facilities; (5) establish rates for water and electric revenue producing utilities owned, controlled, or operated by the City, but subject to the approval of the City Council; (6) approve or disapprove the appointment of the Public Utilities General Manager, who shall be the Department head; (7) make such reports and recommendations to the City Council regarding the Department as it shall deem advisable; (8) designate its own secretary; and (9) exercise such other powers and perform such other duties as may be prescribed by ordinance not inconsistent with any of the provisions of the City Charter.

The voters in the City passed Measure MM (the "Measure") on November 2, 2004, which became fully effective upon approval of the City Council on May 17, 2005. The Measure amended the City Charter provisions and granted the authority to award bids and authorizes procurement contracts to the Board. The effect of the Measure streamlines the process for procurement approvals by eliminating the need for City Council approval, assuming funding authority exists in the Department's budget, as adopted or amended by the City Council. Contracts that are subject to the Measure are public works, goods, non-professional and professional services. Contracts related to property acquisitions / dispositions, power and transmission and other negotiated agreements are not affected by the Measure, and remain subject to prior approval requirements established by the City Council.

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

David E. Barnhart - Chairman of the Board, appointed to the Board in 2003, term expires March 1, 2009. Mr. Barnhart is a retired director of transportation.

Robert A. Stockton - Vice Chairman of the Board, appointed to the Board in 2004, term expires March 1, 2010. Mr. Stockton is a principal/vice president of a consulting civil engineering company.

Joe Tavaglione - Appointed to the Board in 2001, term expires March 1, 2009. Mr. Tavaglione is a local contractor/developer.

Robert Elliott - Appointed to the Board in 2006, term expires March 1, 2010. Mr. Elliott is a retired general manager.

Berneta M. Titus - Appointed to the Board in 2006, term expires March 1, 2011. Ms. Titus is a president/CEO of a local credit union.

Ian J. Davidson - Appointed to the Board in 2007, term expires March 1, 2011. Mr. Davidson is a owner/president of a local company.

Juan "Manny" Sanchez - Appointed to the Board in 2008, term expires March 1, 2012. Mr. Sanchez is a professional (Civil) Engineer.

Ken L. Sutter - Appointed to the Board in 2005, term expires March 1, 2009. Mr. Sutter is a retired licensed architect.

Mary Curtin - Appointed to the Board in 2006, term expires March 1, 2009. Ms. Curtin is a teacher at a local community college.

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

THE ELECTRIC SYSTEM

The Electric System operates as a vertically integrated utility providing service to virtually all electric consumers within the city limits of Riverside, which encompasses 81 square miles. The Electric System's power supply requirements are met through (i) purchases of power under long-term power sales agreements with Bonneville Power Administration ("BPA") and Deseret Generation and Transmission Cooperative ("Deseret"), (ii) the City's 40 MW simple-cycle combustion turbines also referred to as the "Springs", and the City's two unit 98 MW Riverside Energy Resource Center, (iii) the City's ownership interest in Units 2 and 3 of the San Onofre Nuclear Generating Station, (iv) entitlements in the IPP Generating Station, Palo Verde Nuclear Generating Station, and the Hoover Uprating Project, (v) contracts for renewable energy and (vi) purchases of firm and non-firm energy from various western utilities when it is available at an economical price or when needed to satisfy periods of peak demand. For the fiscal year ended June 30, 2007, the total number of meters in the Electric System was 105,226 and the total MWh generated and purchased were 2,651,000.

Existing Facilities

Excluding its ownership interest in the Springs, RERC, and Units 2 and 3 of SONGS, the Electric System is fundamentally a sub-transmission and distribution system. Power is supplied to the City through seven separate 69,000-volt sub-transmission lines owned and operated by SCE. These lines are used for the

sole purpose of delivering electric energy from SCE's Vista Substation to the northerly limits of the City, where connection points are made to the City-owned and operated 69,000-volt sub-transmission system.

Springs (which began commercial operation in October 2002) consists of four natural gas, simple-cycle turbine generators (for a total of 40 MW), used primarily to serve the Electric System's native load during periods of super peak power demand in the City. These facilities will also be used if normal operations of the Electric System are disrupted, and would provide essential emergency services within the City such as hospital care, traffic control and police and fire dispatching. Springs is located within the Springs Substation at 2221 Eastridge Ave, on the East side of Riverside, where it interconnects with the City's sub-transmission grid.

RERC is a natural gas-fired simple-cycle plant located in the City, consisting of two General Electric LM 6000 SPRINT combustion turbines, nominally rated at 49 MW each (net power at site conditions) and related sub-transmission lines. RERC was financed with a portion of the City's 2004A Bonds and 2004B Bonds issued on June 3, 2004 in the aggregate principal amount of $110,000,000. The total construction cost of RERC was $81,600,000. RERC was completed in June 2006 and has a combined operating capacity of 98 MW with emission levels that allow for approximately 1,200 hours of run time per unit, per year. RERC addresses the City's energy needs attributable to growing demand and helps compensate for the expiration of power purchase agreements with the California Department of Water Resources ("CDWR").

Due to the seasonal peaking nature of the City's demand, natural gas procurement for the Springs and RERC units is through term and spot transactions from creditworthy counterparties either through bi-lateral contracts or with other signatories to the North American Electric Standards Board enabling agreement.

The City had 1,232 circuit miles of sub-transmission and distribution lines as of the fiscal year ended June 30, 2007. The 704 circuit miles of underground lines are primarily in commercial and new residential areas. There are 14 substations within the electrical system that have a combined capacity of 994 million volt-amperes ("MVA").

SONGS Units 2 and 3 are rated at 1,070 MW and 1,080 MW, respectively, and have been in commercial operation since October 1983 and April 1984, respectively. SCE is the principal owner and operating agent for SONGS Units 2 and 3. Transmission of the power associated with the City's 1.79% ownership interest is provided by the California Independent System Operator ("ISO"). The capacity available to the City from SONGS Units 2 and 3 is 19.2 MW and 19.3 MW, respectively.

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

ELECTRIC SYSTEM FACILITIES

	Fiscal Year Ended June 30,				
	2003	**2004**	**2005**	**2006**	**2007**
Utility Plant (less provision for accumulated provision)[1]	$254,857	$258,944	$277,138	$396,934	$395,404
Construction in Progress[1]	16,335	29,941	95,988	26,790	54,663
Distribution - Overhead Circuit Miles	538	534	531	527	528
Underground Circuit Miles	593	604	622	663	704
Street Light Circuit Miles	823	858	870	885	906

(1) Dollars rounded to the nearest thousand.

Power Supply

The electricity supplied to the City consists of power from (i) the City's Springs and RERC facilities, (ii) its ownership interest in SONGS, (iii) entitlements in the IPP Generating Station, the Palo Verde Nuclear Generating Station and the Hoover Uprating Project, (iv) long-term contracts of firm purchases from BPA and Deseret (v) contracts for renewable energy, and (vi) firm and non-firm energy purchases from other entities. For the fiscal year ended June 30, 2007, the overall average net cost of generation and transmission was 6.9 cents per kilowatt-hour ("kWh").

The City is the sole provider of electric service within its territory, and except for a few small areas of recent annexations, serves virtually no customers outside its boundaries. The various power supply resources available to the City during the fiscal year ended June 30, 2007 are described below. During the fiscal year ended June 30, 2007, the Electric System generated and purchased a total of 2,651,000 MWh of electricity for delivery to customers throughout the City and others. The following table sets forth the amounts in MWh and percentages of electricity obtained by the City during the fiscal year ended June 30, 2007.

ANNUAL ELECTRICITY SUPPLY[1]
Fiscal Year Ended June 30, 2007

Resource	MWh	Percentage
IPP Generating Station	1,130,000	42.6%
Firm Contracts (Deseret, BPA, CDWR and others)	861,900	32.5
SONGS	310,400	11.7
PVNGS	90,000	3.4
Hoover Uprating Project	34,500	1.3
Springs / RERC	63,600	2.4
Renewable Resources	245,000	9.2
Net Exchange In / (Out)	(84,400)	(3.1)
Total	2,651,000	100.0%

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

The system peak for the fiscal year ended June 30, 2007 was 586 MW. A new historic system peak of 604 MW was set on August 31, 2007. The following table sets forth, in MWh of electricity, the total purchases of power and Electric System peak demand during the periods shown.

TOTAL ENERGY GENERATED AND PURCHASED AND PEAK DEMAND

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
City Generation (MWh)	331,600	318,800	284,400	287,000	375,000
Other Sources (MWh)	2,014,600	2,215,900	2,343,800	2,290,300	2,276,000
System Total (MWh)[1]	2,346,200	2,534,700	2,628,200	2,577,300	2,651,000
System Native Load (MWh)	1,776,000	1,968,000	1,962,000	2,038,000	2,167,000
System Peak Demand (MW)	474.2	517.2	519.1	550.6	586.3[2]

(1) Before system losses.

(2) Increase from previous years was due to a combination of expanded load (e.g. comprised of expected load growth and economic development efforts of the City and the Department), and the increase in average consumption due to warmer weather patterns.

Intermountain Power Project. The City has a 7.617% (approximately 137.1 MW) entitlement in the coal-fired IPP Generating Station Units 1 and 2 located near Lynndyl, Utah, which were declared to be commercially operational in June 1986 and May 1987, respectively. The City has entered into a power sales agreement with the IPA, as the owner of IPP Generating Station, which obligates the City to its share of capacity and energy of the IPP Generating Station on a "take-or-pay" basis. IPA has issued debt for the IPP Generating Station, with approximately $2,565,343,586 principal amount outstanding as of December 31, 2007 (which amount excludes an unamortized refunding charge in the amount of $475,894,000 which will be amortized over the life of the refunding bonds), of which approximately $234,369,760 in principal amount was payable by the City. In the fiscal year ended June 30, 2007, the IPP Generating Station provided 1,130,000 MWh of energy to the City at an average cost of 4.2 cents per kWh (exclusive of delivery costs).

The IPP Generating Station consists of: (a) two coal-fired, steam-electric generating units with net ratings of 900 MW each and a switchyard located near Lynndyl, Utah; (b) a rail car service center located in Springville, Utah; (c) certain water rights and coal supplies; and (d) certain transmission facilities consisting primarily of the Southern Transmission System. See "Transmission Facilities - Southern Transmission System."

There are 36 utilities (collectively, the "IPP Purchasers") that purchase the output of the IPP Generating Station, consisting of the City, and the California cities of Los Angeles, Anaheim, Burbank, Glendale and Pasadena (the "IPP Participants"), PacifiCorp (which merged with Scottish Power), as successor to the obligations of Utah Power & Light Company ("UP&L"), 22 members of IPA and Heber Light & Power Company (collectively, the "Utah Municipal Purchasers"), and six rural electric cooperatives serving loads in the States of Utah, Arizona, Colorado, Nevada and Wyoming (collectively, the "Cooperative Purchasers"). The IPP Generating Station is operated by the Los Angeles Department of Water and Power ("LADWP"). See "- Electric System Litigation - IPA Unit 3 Development Costs" below for information related to IPP Unit 3 project in Delta, Utah.

IPA owns various mineral interests, including 50% undivided interest in the Crandall Canyon Mine in Emery County, Utah, and a 50% undivided interest in the West Ridge Mine in Carbon County, Utah. In the case of each of these two mining properties, Andalex Resources, Inc. ("Andalex") owns the other 50% undivided interest and subsidiaries of Andalex are the contract operators. Andalex was sold in 2006 to Utah American Energy, Inc., a subsidiary of Murray Energy Corporation. Combined, these two mines supply the IPP Generating Station with about 20% of its annual coal requirements during the last several years. LADWP, in its role as operating agent, manages these interests on behalf of IPA and maintains an advisory role with respect to mining operations. The West Ridge Mine contains approximately 30 million tons of recoverable coal. See "- Electric System Litigation - Crandall Canyon Mine" below for information related to pending claims.

The IPA attempts to maintain a coal stockpile at the IPP Generating Station that is sufficient to operate the plant at current plant capacity factors for about 60 days, in the event of a disruption in coal supply.

Transportation of coal to the IPP Generating Station is provided primarily by rail under agreements between the IPA and the Utah Railway and the Union Pacific Railroad companies, and the coal is transported primarily in IPA-owned railcars. Coal can also be transported, to some extent, in commercial trucks.

San Onofre Nuclear Generating Station. The City has a 1.79% undivided ownership interest in Units 2 and 3 of SONGS, located south of the City of San Clemente in northern San Diego County. The capacity available to the City from SONGS Units 2 and 3 is 19.2 MW and 19.3 MW, respectively. SONGS has a nominal net generating capability of 2,150 MW. Other owners are SCE, 75.05%; San Diego Gas & Electric Company ("SDG&E"), 20.00%; and the City of Anaheim, 3.16%. Units 2 and 3 of SONGS became operational on August 18, 1983 and April 1, 1984, respectively. The City's share of construction costs for the project was approximately $193 million, which was financed mainly through revenue bonds. In the fiscal year

ended June 30, 2007, SONGS provided 310,400 MWh of energy to the City at an average cost of 7.3 cents per kWh (exclusive of delivery costs).

SONGS is operated and maintained by SCE under an agreement with the City and the other owners that expires upon termination of the easement for the plant which is in the year 2024. The four-member SONGS Board of Review approves the budget for capital expenditures and operating expenses. The City and other owners each have one representative on the board. The participation agreement provides that each owner is entitled to its proportionate share of benefits of and pays its proportionate share of costs and liabilities incurred by SCE for construction, operation and maintenance of the project; each owner's obligation is several and not joint or collective.

The City's share of the costs to purchase and process nuclear fuel for SONGS is funded by Electric System revenues. The cost of nuclear fuel is amortized to expense using the "as burned" method, or as utilized. Prior to its utilization it is considered inventory. In accordance with the Nuclear Waste Policy Act of 1982, the City is charged a fee for the disposal of nuclear fuel at the rate of one mill per kWh on the City's share of electricity generated from SONGS. The City pays the fee quarterly to SCE who acts as the agent for SONGS participants. The Operating Agreement states that the SONGS owners will, in a subsequent agreement, set forth their rights and obligations for decommissioning SONGS.

The operating licenses for SONGS Units 2 and 3 expire on February 16, 2022 and November 15, 2022, respectively. The City has formally agreed to participate in the operation of SONGS through 2022. It has been reported that SCE is pursuing a license extension through 2042.

SCE, as operating agent, has declared an "operating impairment" due to deterioration of the steam generators ("SGs"), which would likely result in permanent shutdown of the plant in the 2009-2010 timeframe. The estimated cost to replace the SGs is $680 million of which approximately $12.2 million would represent the City's share. Replacement of the SGs is expected to enable plant operations through at least 2022, and perhaps beyond if Nuclear Regulatory Commission ("NRC") approval is obtained. Although the City Council has approved participation in the replacement of the SGs, Anaheim has opted not to participate. During 2006, the Federal Energy Regulatory Commission (the "FERC"), NRC and the CPUC approved the transfer of Anaheim's ownership share to SCE, and as a result, SCE's ownership was increased to 78.21% in Units 2 and 3 of SONGS.

The plant site easement for SONGS terminates on May 12, 2024. The plant must be decommissioned and the site restored by the time the easement terminates. In a study dated July 2005 and prepared by ABZ, Incorporated on behalf of the participants in SONGS, the cost of decommissioning SONGS Units 2 and 3 was estimated to be approximately $3.131 billion, based on 2004 dollars. The City's share of such cost was estimated to be approximately $56 million. The City anticipates receiving a new estimate of decommissioning costs every three years. As required by regulations of the NRC and state law, each SONGS participant has established trust funds and is collecting money in those funds over time to meet their respective obligations to pay for the decommissioning of SONGS. The City had deposited $52.3 million in its trust funds as of December 31, 2007.

SCE currently stores spent nuclear fuel in on-site spent fuel pools near the Units, which may become full in June 2008. Until a permanent repository for high-level nuclear waste becomes available, additional on-site spent fuel storage is required by using dry casks similar to those currently used at certain other nuclear plants. SCE has constructed six dry casks that are in place to accommodate the spent fuel when the pools become full.

Hoover Uprating Project. Modern insulation technology has made it possible to "uprate" the nameplate capacity of existing generators. The Hoover Uprating Project consists principally of the uprating of the capacity of the 17 existing generating units at the hydroelectric power plant of the Hoover Dam ("Hoover"), located approximately 25 miles from Las Vegas, Nevada. The City has a 31.9% (30 MW)

entitlement interest in SCPPA's approximately 94 MW interest in the total capacity and allocated energy of Hoover. The City has executed a power sales contract with SCPPA under which the City has agreed to make monthly payments on a "take-or-pay" basis in exchange for its share of SCPPA's proportionate share of capacity and allocated energy. As of December 31, 2007, SCPPA had outstanding approximately $17,400,000 principal amount of its bonds in connection with Hoover, of which the City's portion is $5,550,600. In the fiscal year ended June 30, 2007, Hoover provided 34,500 MWh of energy to the City at an average cost of 2.5 cents per kWh (exclusive of delivery costs).

The lower Colorado River ("LCR") has been included in a Critical Habitat Designated Area ("Habitat"), which required the Bureau of Reclamation (the "Bureau") to prepare and file with the United States Fish and Wildlife Service (the "Service") a Biological Assessment of the effect of its operations of the LCR on endangered species within the Habitat. Subsequent to the inclusion of the LCR in the Habitat, the Service issued a Biological Opinion regarding the Bureau's operations and will outline remedial actions to be taken to correct any adverse effects to endangered species. The Hoover customers, together with certain other parties, are working on a Multi-Species Conservation Plan ("MSCP") in cooperation with the Bureau and the Service to mitigate operational scenarios which would adversely affect the Hoover Participants and the other parties. This group is developing a MSCP for the main stern of the LCR to cover 27 species and habitats for a term of 50 years. This plan was approved by the participating agencies in April 2005.

Implementation of the MSCP continues to progress, with approximately 300 acres (of the proposed 8,132 acres) developed to augment the existing populations of the fish in the LCR. Concerns regarding the Quagga Mussel, a species residing in the Habitat, have prompted a separate series of studies being conducted by the Bureau to analyze the impact of the Hoover, Davis, and Parker dams on the LCR. The results of consultant findings and subsequent resolutions to this problem will be taken into consideration by the MSCP.

Palo Verde Nuclear Generating Station. The City has a 5.4% (11.7 MW) entitlement interest in SCPPA's 5.91% ownership interest in PVNGS, including certain associated facilities and contractual rights, 5.56% ownership in the Arizona Nuclear Power Project ("ANPP") High Voltage Switchyard and associated contractual rights, and 6.55% share of the rights to use certain portions of the ANPP Valley Transmission System. The City has entered into a power sales agreement with SCPPA which obligates the City to its share of capacity and energy on a "take-or-pay" basis. SCPPA has issued bonds for PVNGS, with approximately $113,715,000 principal amount outstanding as of December 31, 2007, of which the City's proportionate share is $6,140,610. In the fiscal year ended June 30, 2007, PVNGS provided 90,000 MWh of energy to the City at an average cost of 4.5 cents per kWh (exclusive of delivery costs).

In response to increased competition in the electric utility industry, in 1997 SCPPA began taking steps designed to accelerate the payment of all fixed rate subordinate bonds relating to PVNGS by July 1, 2004 (the "PVNGS Restructuring Plan"). Such steps consisted primarily of refunding certain outstanding bonds for savings and accelerating payments by the PVNGS project participants on the bonds issued by SCPPA for PVNGS. As a result, the cost of power from PVNGS was artificially high through fiscal year 2003-04, but has been reduced significantly in fiscal year 2004-05 and thereafter. The City expects the cost of PVNGS power to be approximately 4.5 to 5 cents per kWh in fiscal year 2007-08 and beyond (exclusive of delivery costs).

PVNGS consists of three nearly identical nuclear electric generating units located on an approximately 4,000-acre site about 50 miles west of Phoenix, Arizona. Units 1, 2 and 3 (each designed for a 40-year life) achieved firm operation on January 27, 1986, September 18, 1986, and January 19, 1988, respectively. The current maximum dependable capacity is: (i) 1,314 MW for Unit 1, (ii) 1,314 MW for Unit 2, and (iii) 1,247 MW for Unit 3. In 2003, Unit 2 underwent a replacement of steam generators and low-pressure turbine rotors, resulting in an increased power output of 68 MWs. In 2005, Unit 1 underwent a similar replacement, resulting in an increased power output of 71 MWs. Unit 3 steam generators were replaced in the fall of 2007, and resulted in an increased power output of 70 MWs. For the fiscal year ended June 30, 2007, Units 1, 2 and 3 operated at a capacity factor of 77%, 83.5%, and 89.2% respectively, and generated 8.9 million MWh, 9.5 million MWh and 9.7 million MWh, respectively.

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

Due to anticipated cracks, the PVNGS owners approved the replacement of the reactor vessel heads in all three generating units beginning in 2009. PVNGS's cooling water reservoirs and evaporation ponds show significant degradation. Such degradation, if not remedied, could allow liquid discharge in violation of PVNGS's aquifer protection permit and thereby impact the continuous operation of PVNGS. PVNGS constructed a new water reservoir and put it into service in 2007. The owners of PVNGS have approved the relining of the old cooling water reservoir and relining is in progress. The current evaporation ponds are almost full and the owners of PVNGS have approved the construction of a new evaporation pond, which is required to expand capacity for the storage of waste water. In February 2007, the NRC increased the monitoring of PVNGS by placing it into Category 4 of regulation for nuclear power units, making it one of the most monitored nuclear power plants in the United States. The decision was made after the NRC discovered that electrical relays in a diesel generator did not function during tests in July and September of 2006 and air pockets found in the piping of the emergency core cooling system. Management and operational changes are being implemented at PVNGS.

The co-owners of PVNGS have created external accounts for the decommissioning of PVNGS at the end of its life. SCPPA's records indicate that the external account for decommissioning was approximately $142,000,000 at June 30, 2007. Based on the most recent 2004 estimate of decommissioning costs prepared by TLG Engineering, SCPPA has advised the City that it estimates that the City's share of the amount required for decommissioning of PVNGS is fully funded. A draft 2007 decommissioning cost report is nearing completion. Early indications are that the funds collected for decommissioning are still sufficient for SCPPA's decommissioning obligation. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs. SCPPA has advised the City that it anticipates receiving a new estimate of decommissioning costs every three years.

APS currently stores spent nuclear fuel in on-site pools near the Units, although these pools have reached capacity, requiring additional on-site spent fuel storage until a permanent repository for high-level nuclear waste developed by the federal government becomes available. Since the spent fuel pools ran out of storage capacity, an Independent Spent Fuel Storage Installation ("ISFSI") was built to provide additional spent fuel storage at the site while awaiting permanent disposal at a federally developed facility. The installation uses dry cask storage similar to that being used at other nuclear plants and is designed to accept all spent fuel generated by PVNGS during its lifetime. As of June 30, 2007, 54 casks, each containing 24 spent fuel assemblies, have been put into storage in the ISFSI.

APS ships all of its low-level radioactive waste to available disposal sites in Utah and South Carolina. In August 1995, a storage facility for low-level radioactive materials was opened at PVNGS to allow temporary on-site storage in case the disposal sites are not available. APS estimates that the storage facility has sufficient storage capacity to store up to nine years of low-level radioactive waste produced at PVNGS and it could be expanded to allow for additional storage of low-level waste until such time as PVNGS is no longer operational. This on-site storage facility remains fully available.

Springs Generating Project. The City used proceeds of the 2001 Bonds to finance the construction of Springs, comprised of four natural gas, simple-cycle turbine generators, each with a capacity of 10 MW located in East Riverside. Springs began commercial operation in October 2002 and is used primarily during periods of super peak power demand in the City to enhance reliability and service delivery to customers. As is typical of reserve and peaking resources, the average cost per kWh of power generated at Springs is

comparatively expensive. For the fiscal year ended June 30, 2007, Springs generated 1,627 MWh of electricity.

Riverside Energy Resource Center. The City used proceeds of the 2004 Bonds to finance the acquisition and construction of RERC, a 98 MW two unit simple-cycle power plant and related sub-transmission lines for the City. The natural gas-fired simple-cycle plant consists of two General Electric LM 6000 SPRINT combustion turbines, each nominally rated at 49 MW (net power at site conditions). Based on current emission levels, the City anticipates operating RERC combustion turbines as peaking units for up to 1,200 hours per turbine annually. RERC is used to enhance reliability and service delivery to customers. RERC operates at a more efficient heat rate, is expected to be more economic and will be used more frequently than Springs facilities. For the fiscal year ended June 30, 2007, RERC generated 61,954 MWh of electricity.

California Department of Water Resources. The City has entered into two Power Sales Agreements with CDWR for 23 MW (CDWR III) and 30 MW (CDWR IV), respectively, of seasonal capacity and associated energy from May through October, for a period of 15 years, subject to early termination. Deliveries of CDWR power under these agreements began in May 1996 and are made available at SCE's Vincent Substation, with the ISO providing the remaining transmission to the City. Each agreement provided for fixed energy rates through 1996 and fixed capacity rates through 2001 with annual renegotiations thereafter, or through a default rate methodology if renegotiation is unsuccessful.

In early 2005, CDWR and the City disagreed over whether the Power Sales Agreements III and IV were still in effect as of December 31, 2004. While CDWR believed the agreements were terminated, the City contended that CDWR did not provide proper notification under the terms of the Power Sales Agreements. During May and June, CDWR continued to provide power under the terms of the original contracts, pending staff's resolution of the dispute. On September 13, 2005, in order to maintain the City's long-term relationship with CDWR and to avoid costly litigation, the City Council approved the contract amendments, effectively terminating the contracts in September 2007 and reducing the final two years of the contracts to a period of May through September.

The agreements described above are not related to CDWR's agreements addressing California's power supply crisis. See "DEVELOPMENTS IN THE ENERGY MARKETS."

Deseret Agreement. On March 31, 1992, the City entered into a Power Sale Agreement (the "Deseret Agreement") with Deseret, providing for the purchase by the City from Deseret of 52 MW of electric capacity and certain associated energy from Deseret's entitlement to the output of the Hunter Generating Station located near the City of Castle Dale, Utah and Deseret's Bonanza Generating Station located near the City of Vernal, Utah. The City notified Deseret of its intention to terminate the Deseret Agreement effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after June 30, 2002 through the term of the agreement in 2009. In exchange, the City paid Deseret $25 million from Electric Fund reserves, which is reflected on the balance sheet of the Electric System as deferred purchased power. On July 1, 2002, the Electric System began to realize the benefits related to the price reductions and began amortizing the $25 million over the remaining term of the agreement using the straight-line method. In the fiscal year ended June 30, 2007, the City purchased 399,976 MWh of energy through the Deseret Agreement at an average cost of 2.3 cents per kWh (exclusive of delivery costs). Unless sooner terminated at the option of the City, the Deseret Agreement will terminate on December 31, 2009. The deferred purchased power balance as of December 31, 2007 was $6.7 million.

Bonneville Power Administration Power Sales Agreements. The City and BPA have entered into two power sales agreements (exchange contracts), which make available to the City at the Nevada-Oregon border, 23 MW and 60 MW, respectively, of power for the summer season and 16 MW and 15 MW, respectively, of power during the winter season. Transmission for both power sales agreements is provided to the City by the ISO. These power sales agreements will terminate on February 1, 2011 and May 1, 2016,

respectively, or upon termination of certain other specified agreements. Under the terms of the exchange contracts, the City paid BPA $882,000 and received 107,441 MWh of electricity during peak usage and returned 191,863 MWh of electricity to BPA during off peak periods for the fiscal year ended June 30, 2007.

A portion of the capacity charges for the first power sales agreement may be increased by BPA through normal ratemaking processes. Although the amount of any anticipated increase cannot be determined, due to the terms and relative size of the agreements and the seasonal nature of the purchases from BPA, the overall fiscal impact to the City is not anticipated to be significant.

Renewable Resources. The Board and the City Council approved a Renewable Portfolio Standard ("RPS") on June 6, 2003 and July 8, 2003, respectively. This standard sets a goal of reaching a 15% level of renewable power in the City's energy portfolio by 2010 and a 20% level by 2015, goals that are more aggressive than that originally required of the investor-owned utilities ("IOUs") pursuant to Senate Bill 1078. On March 16, 2007, the Board approved a new RPS, increasing the targets to 20% by 2010 and 25% by 2015. On May 4, 2007, the Board added an additional target of 33% by 2020. Recognizing that renewable energy is usually more expensive than conventional resources, the RPS also states that the addition of renewable resources will not cause system-wide rates to increase by over 5% from the 2003 levels. In an effort to increase the share of renewables in the City's power portfolio, the City entered into agreements with various entities described below on a "take-and-pay" basis so that the City's obligation is based on the operating or operable basis of the projects. A fundamental principle pursued by the City in entering into the power purchase agreements described below is that all energy purchased by the City be recognized by the California Energy Resources Conservation and Development Commission ("CEC") as energy generated by a renewable resource to meet the RPS. See "DEVELOPMENTS IN THE ENERGY MARKETS - State Legislation - Renewable Portfolio Standards" herein for additional discussion related to the RPS.

<u>County of Riverside Power Purchase Agreement</u>. The City and the County of Riverside have entered into a five-year power purchase agreement for 1.2 MW of landfill gas energy generated from the Badlands Landfill in Moreno Valley, California. The power purchase agreement was effective on October 10, 2003 and will terminate on December 31, 2008. The City will pay 5.4 cents per kWh for energy delivered under this agreement. In the fiscal year ended June 30, 2007, the City purchased 3,330 MWh of energy under this agreement. The City expects to begin negotiations to extend the term of this agreement within the next few months.

<u>NM Mid Valley Genco LLC Power Purchase Agreement</u>. The City and NM Mid Valley Genco LLC have entered into a five-year power purchase agreement for 2.3 MW of landfill gas energy generated from the Mid Valley Sanitary Landfill in Rialto, California. The agreement was effective on February 27, 2003 and was scheduled to terminate on December 31, 2007. The project began producing energy on April 21, 2003. In the fiscal year ended June 30, 2007, the City purchased 12,841 MWh of energy under this agreement at an average cost of 5.85 cents per kWh.

<u>NM Milliken Genco LLC Power Purchase Agreement</u>. The City and NM Milliken Genco LLC have entered into a five-year power purchase agreement for 2.3 MW of landfill gas energy generated from the Milliken Sanitary Landfill in Ontario, California. The agreement was effective on February 27, 2003 and was scheduled to terminate on December 31, 2007. The project began producing energy on July 17, 2003. In the fiscal year ended June 30, 2007, the City purchased 11,530 MWh of energy under this agreement at an average cost of 5.85 cent per kWh.

The City extended the terms for renewable power under the previous two agreements via letter agreements, which are set to expire as of June 30, 2008. Both of these facilities were recently acquired by a new entity. The City is currently involved in good faith negotiations with the acquiring entity to renew the power purchase agreements for a longer term of up to 30 years. A draft agreement is under review by the acquiring entity. The City fully expects to successfully conclude these negotiations and enter into new long term power purchase agreements prior to June 30, 2008.

Wintec-Pacific Solar, LLC Power Purchase Agreement. On January 28, 2003, the City and Wintec-Pacific Solar, LLC entered into a fifteen-year power purchase agreement for up to 5 MW of wind energy generated from a project near Palm Springs, California. Due to unforeseen circumstances, the seller was only able to construct two (2) Vestas V47 660 KW wind turbine generators at the project location with generating capacity of 1.32 MW that began producing energy on December 26, 2003. Under the terms of the Agreement, the City initially paid 4.4 cents per kWh for energy purchased, with annual escalation thereafter based on the percentage change in the Gross Domestic Product Implicit Price Deflator. On November 10, 2006, the City entered into a second Renewable Power Purchase Agreement with Wintec Energy, Ltd for wind generation capacity of up to eight (8) MW. The contract term is for 15 years, with capacity available upon completion of Wintec's Facility II Wind Turbine Project. In the fiscal year ended June 30, 2007, the City purchased 4,682 MWh of energy at an average cost of 4.9 cents per kWh, under the terms of this agreement.

Salton Sea Power LLC Power Sales Agreement. The City and Salton Sea Power LLC ("Salton Sea") entered into a ten-year power purchase agreement effective May 20, 2003 for 20 MW of geothermal energy generated by a facility located in Imperial County, California. The City takes delivery of the energy at the Mirage Substation, the point where the ISO controlled grid interconnects with the Imperial Irrigation District's electric system. In accordance with the agreement, the City began purchasing unit contingent firm energy from Salton Sea Unit 5 on June 1, 2003. Such purchases will continue through May 31, 2013. For the fiscal year ended June 30, 2007, the City purchased 159,579 MWh of energy at an average cost of 6.1 cents per kWh.

On August 23, 2005, the City Council approved an amendment to the Power Sales Agreement between Salton Sea and the City. The agreement increases the amount of renewable energy available to the City from the current 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the City is only obligated for purchases of energy delivered to the City.

Other Power Purchases. The City also supplements the energy available from its firm resources with energy purchased from other suppliers throughout the western United States. These purchases are made under the Western Systems Power Pool Agreement and numerous bilateral agreements between the City and various suppliers. In fiscal year ending June 30, 2007, the City purchased 703,600 MWh of firm energy (about 26.5% of its total energy) through short-term contracts. The City provides for its energy needs by dispatching power from generating plants in which it has an ownership share, from power sales agreements, forward purchase contracts, short term (monthly, weekly, daily or hourly) purchases it makes in the forward market and firm and non-firm purchases on the spot market. The cost of obtaining the necessary energy will depend upon contract requirements and the current market price for energy. Spot market prices are dependent upon such factors as the availability of generating resources in the region, fuel type, and weather conditions such as ambient temperatures and the amount of rainfall or snowfall. Generating unit outages, dry weather, hot or cold temperatures, time of year, transmission constraints, and other factors can all affect the supply and price of energy. Spot market prices for energy have fluctuated dramatically during recent years. See "DEVELOPMENTS IN THE ENERGY MARKETS."

Wholesale Power Trading

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

Transmission Facilities

Southern Transmission System. In connection with its entitlement to the IPP Generating Station's power, the City has acquired a 10.2% (195 MW) entitlement in SCPPA's share of the transfer capability of the STS. Among other things, the STS provides for the transmission of energy from the IPP Generating Station to the California transmission grid. SCPPA's interest in the STS provides approximately 1,920 MW of transfer capability. As of December 31, 2007, SCPPA had outstanding approximately $843,170,000 principal amount of its bonds, including refunding bonds, of which the City's share is $86,003,000, to finance making payments-in-aid of construction with respect to the STS. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance.

The STS consists of the following: (a) the AC / DC Intermountain Converter Station adjacent to the IPP Generating Station's AC switchyard in Utah; (b) the ±500-kV DC bi-pole transmission line ("HVDC transmission line"), 488 miles in length, from the Intermountain Converter Station to the City of Adelanto, California; (c) the AC / DC Adelanto Converter Station, where the STS connects to the switching and transmission facilities of LADWP; and (d) related microwave communication system facilities. The HVDC transmission line is designed to have the capability of transmitting in excess of the aggregate output of the IPP Generating Station anticipated to be delivered to the SCPPA participants in the STS. The AC / DC converter stations each consist of two solid state converter valve groups and have a combined rating of 1,920 MW with an overload rating for each group of 1,200 MW in the event one group is out of service. The microwave communication system facilities are used for IPP Generating Station dispatch, for communication, and for control and protection of the STS. The microwave system facilities are located along two routes between the Generating Station and Adelanto, forming a loop network.

Mead-Phoenix Transmission Project. Originally in connection with its entitlement to PVNGS power, the City has acquired a 4.0% (12 MW) entitlement to SCPPA's share of the Mead-Phoenix Transmission Project, separate from the SCPPA interest acquired for the Western Area Power Administration ("Western"). As of December 31, 2007, SCPPA had outstanding approximately $65,305,000 principal amount of its bonds, including refunding bonds, of which the City's proportionate share is $2,612,000, to finance its interest in the Mead-Phoenix Transmission Project. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance.

The Mead-Phoenix Transmission Project consists of a 256-mile, 500-kV AC transmission line that extends between a southern terminus at the existing Westwing Substation (in the vicinity of Phoenix, Arizona) and a northern terminus at Marketplace Substation, a substation located approximately 17 miles southwest of Boulder City, Nevada. The line is looped through the 500-kV switchyard constructed at Western's existing Mead Substation in southern Nevada with transfer capability of 1,300 MW. By connecting to Marketplace Substation, the Mead-Phoenix Transmission Project interconnects with the Mead-Adelanto Transmission Project (as described below) and with the McCullough Substation. The Mead-Phoenix Transmission Project is comprised of three project components. SCPPA has executed an ownership agreement providing it with an 18.3077% member-related ownership share in the Westwing-Mead project component, a 17.7563% member-related ownership share in the Mead Substation project component, and a 22.4082% member-related ownership share in the Mead-Marketplace project component. Other owners of the line are APS, M-S-R Public Power Agency, Salt River Project and the City of Vernon, California ("Vernon"). In late 2007, Vernon and Startrans IO, L.L.C. ("Startrans") submitted filings to FERC in anticipation of the acquisition by Startrans of Vernon's ownership interest. The commercial operation date for the project was May 15, 1996.

Mead-Adelanto Transmission Project. In connection with the Mead-Phoenix Transmission Project, the City has acquired a 13.5% (118 MW) entitlement to SCPPA's share of the Mead-Adelanto Transmission Project. The Mead-Adelanto Transmission Project consists of a 202-mile, 500-kV AC transmission line that extends between a southwest terminus at the existing Adelanto Substation in southern California and a

northeast terminus at Marketplace Substation. By connecting to Marketplace Substation, the line interconnects with the Mead-Phoenix Transmission Project and the existing McCullough Substation in southern Nevada. The line has a transfer capability of 1,286 MW. SCPPA has executed an ownership agreement providing it with a total of a 67.9167% member-related ownership share in the project. The other owners of the line are M-S-R Public Power Agency and Vernon. In late 2007, Vernon and Startrans submitted filings to FERC in anticipation of the acquisition by Startrans of Vernon's ownership interest. As of December 31, 2007, SCPPA had outstanding approximately $207,170,000 principal amount of its bonds, including refunding bonds, of which the City's proportionate share is $27,968,000 to finance its interest in the Mead-Adelanto Transmission Project. The City has entered into a transmission service contract with SCPPA which obligates the City to pay its share of debt service on such bonds on a "take-or-pay" basis, as well as capital costs and costs related to operation and maintenance. The commercial operation date for the project was May 15, 1996, which coincided with the completion of the Mead-Phoenix Transmission Project.

Future Transmission Facilities. Historically, the City has relied on a single point of electrical interconnection to California's bulk power transmission system, but the City is now pursuing the creation of a second point of interconnection to significantly enhance its system reliability and import capacity. The City has officially filed application under SCE's FERC-filed Transmission Owner Tariff for the construction and interconnection of a new 230-69 kV transmission substation which will provide another interconnection of the City's system with SCE's transmission facilities. The City has also spent $120,000 for a system study performed by SCE to assess the impact to the transmission system of the proposed new interconnection. As a result of the System Impact Study, SCE has notified the City that the new substation will have no negative system impact, and the ISO has acknowledged the new substation as being a prudent addition to the overall system. The ISO has reviewed the need for additional capacity into Riverside and has agreed with SCE on the need for the substation and has directed SCE to build the new interconnection. SCE has proposed to construct a double-circuit 230 kV line into the City and a 230 kV switchyard to provide the City with a new second point of interconnection to California's transmission grid. The project is currently undergoing an environmental review as part of the California Environmental Quality Act process.

This proposed new interconnection will allow the City to segregate its present system into two electrically separate systems, each relying on geographically and electrically separate interconnections to the California grid. In turn, each separate system will experience reliability benefits resulting from the City's recently constructed and future planned additions of internal generation facilities. These activities, taken as a whole, are representative of the City's commitment to reliably serving its customers at the lowest possible rates.

California Independent System Operator

The City serves as its own Scheduling Coordinator with the ISO and was the first California municipal utility to do so. The City has also served, to a limited degree, as the scheduling agent, under a Utility Services Agreement, for the Cities of Banning and Azusa. Services include the scheduling of firm and non-firm energy from various sources, including the Western Systems Power Pool. Banning and Azusa share the cost of the City Electric System's Power Supply Operations Center.

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

Certain of the City's ISO-Transferred Entitlements relate to transmission facilities, including the STS, that were financed by SCPPA utilizing tax-exempt bonds (the "Authority's Bonds"). The City executed certain transmission service contracts with SCPPA that prohibit the City from taking any action that would adversely affect the tax-exempt status of the Authority's Bonds (including bonds relating to the STS). If the City were to be found to have breached such contractual obligation, the City could be subjected to significant

financial liability. The TCA executed by the City and submitted by the ISO on November 19, 2002 for approval by FERC contained certain withdrawal provisions which the City believes will protect the tax-exempt status of the Authority's Bonds and satisfy the City's contractual obligation to SCPPA under its transmission service contracts.

On January 1, 2003, the City became a PTO with the ISO, entitling the City to receive compensation for the use of its transmission entitlements committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement ("TRR") as approved by FERC. The City now obtains all of its transmission requirements from the ISO. The California IOUs, CDWR, and the CPUC, among others, objected to various aspects of the City's TRR at FERC. The City and the objecting parties submitted a settlement agreement to FERC in July 2003, which FERC accepted. Among other things, the settlement agreement disposes of all the City's TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. On March 27, 2006, FERC issued a final order ruling that the costs associated with the City's transmission entitlements at issue should be included in the ISO's rates and charges, thus entitling the City to full recovery of these costs. CDWR appealed this decision to the U.S. Court of Appeals for the D.C. Circuit, but it subsequently withdrew this appeal, and the court issued an order dismissing the case on July 9, 2007. As a result of this dismissal, approximately $49 million collected from the ISO through June 30, 2007 but previously held in reserves, has now been released to the Department's unrestricted operating cash reserve account, and is available for current operations or other strategic purposes upon approval of the Board and the City Council.

As noted above, the City obtains all of its transmission requirements from the ISO. Through the use of ISO firm transmission rights ("FTR") granted to the City with respect to the ISO-Transferred Entitlements, the City will retain certain scheduling priority rights in the ISO's day-ahead market when the ISO predicts that congestion will occur across the ISO-Transferred Entitlements. These rights that were granted to the City as a result of becoming a PTO, are only in effect until 2010, and do not cover all of the transmission necessary to serve the City's customers. The City has been participating in the ISO's FTR auction process since 2003, purchasing transmission rights in excess of those rights granted, to hedge costs associated with anticipated transmission grid congestion. Historically the City has spent approximately $1 million per year to purchase these scheduling priority rights, and has recovered more than this amount in avoided congestion expenses. The City cannot predict what effect changes in the markets will have on these amounts as the ISO implements Market Redesign and Technology Upgrade ("MRTU") which will include locational marginal pricing to more accurately reflect congestion pricing. Under MRTU, FTRs will be eliminated and the City will be allocated Congestion Revenue Rights ("CRRs") to hedge congestion charges for a portion of its load and may purchase additional CRRs if that appears cost effective. If MRTU is not implemented prior to the end of 2010, the City will receive FTRs only through purchase in the ISO's auction process. See "DEVELOPMENTS IN THE ENERGY MARKETS - Market Redesign and Technology Upgrade" herein for additional information regarding MRTU.

Customers and Energy Sales

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

NUMBER OF METERS

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Domestic	89,149	90,583	92,914	93,607	94,232
Commercial	9,356	9,683	10,060	10,038	10,063
Industrial	374	351	344	496	837
Other	139	149	145	153	94
Total - all classes	99,018	100,766	103,463	104,294	105,226

ENERGY SOLD
(Millions of kWh)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Domestic	618	707	675	697	748
Commercial	451	522	530	474	456
Industrial	658	687	707	810	924
Wholesale Sales	378	354	470	321	295
Other	49	52	50	57	39
Total kWh Sold[1]	2,154	2,322	2,432	2,359	2,462

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

Many of the Electric System's industrial customers have loads under 500 kW. The Electric System's two largest customers provided approximately 2.82% and 2.59% of its revenues, respectively, for the fiscal year ended June 30, 2007. The Electric System's commercial and industrial customer base, comprising its five largest customers, provided approximately 11% of revenues for the fiscal year ended June 30, 2007. No other customer of the Electric System provided more than 1.25% of its revenues for the fiscal year ended June 30, 2007.

Electric Rates and Charges

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

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

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

At present, the Electric System has 14 rate schedules in effect. The City provides no free electric service. The current electric rates were established by the Board, approved by the City Council and became effective on January 1, 2007, except for Schedules NEM (Net Energy Metering) which became effective on December 1, 2003 and for Schedule CS (Contract Service) which became effective on November 1, 2002. Schedule ED (Economic Development) was closed to new and existing customers as of March 1, 2007.

On June 4, 2002, the City Council unanimously approved a resolution implementing rate increases for each of the following three fiscal years, and revised the Electric Rates, Rules, Fees and Charges. The electric rate increases resulted in 3.4%, 3.1%, and 2.2% overall increases effective November 1, 2002, November 1, 2003, and November 1, 2004, respectively. A portion of the rate increases was used to increase the amount of cash reserves held by the Electric System, and 0.5% of the rate increase (approximately $1,000,000) will be

used to fund the expanded overhead to underground and accelerated cable replacement programs. The changes to the fees and charges for the Electric System are designed to recover the actual cost of service.

On December 19, 2006, the City Council approved a three-year Electric Reliability Rate Plan primarily to fund debt service for internal generation, a second point of interconnection to the State's transmission grid and replace expiring low-cost power supply contracts at current market rates. This plan implemented a new Tier 3 and Tier 4 to the residential rate structure in order to encourage conservation. Riverside's summer consumption typically doubles over the winter consumption due to Riverside's semi-arid climate. As a result of the desert-type summers and implementation of additional tiers, residential customers experienced a wide-range of percentage increases. Consequently, on August 14, 2007, the City Council repealed the increases to Tiers 3 and 4 of the previously approved residential rate increase. The business rates were not repealed. Based on the average amount for the past three years, the City experienced less than 0.2% of annual uncollectible accounts, representing an amount less than $350,000.

A joint City Council / Board workshop was held on September 11, 2007 during which the City Council provided general guidance for development of a replacement rate plan. During the workshop, City Council supported the need for an increase to fund infrastructure upgrades and increased power supply costs but wanted a more equitable allocation across all rate groups with an emphasis on reducing the impacts of high summer bills for high use residential customers.

On December 4, 2007, the City Council unanimously approved a new three-year Electric Utility Rate Plan, effective January 1, 2008, 2009, and 2010. Under this new plan, a new Reliability Charge will be implemented for all customer classes based upon either the maximum rated capacity for electric service at each individually metered site or a combination of such panel capacity and actual usage, all according to the customer's applicable rate tariff. This charge will be used to fund the system reliability upgrades which benefit all utility customers.

In addition to the Reliability Charge, residential customers will also have a third energy tier and a seasonal adjustment for energy usage. This seasonal adjustment will effectively reduce the summer bills and will result in slightly higher increases in the winter months.

The Electric System's base rates have been changed eight times over the period beginning January 1, 1998. The following table sets forth the percentage increase in rates for the indicated customer classes. Such percentage changes do not reflect changes in the power cost adjustment account.

PERCENTAGE INCREASE IN ELECTRIC RATES

Effective Date	Overall System	Residential	Commercial	Industrial[3]
January 1, 1998[1]	2.85%	2.85%	2.85%	2.85%
November 1, 2002[2]	3.4	4.0	3.0	3.0
November 1, 2003[2]	3.1	3.25	3.0	3.0
November 1, 2004[2]	2.2	2.5	2.0	2.0
January 1, 2007[3]	3.5	2.1	5.2	4.7
January 1, 2008[3]	10.0	13.5	10.5	8.9
January 1, 2009[3]	3.6	3.7	5.2	2.8
January 1, 2010[3]	5.8	8.6	4.8	5.4

(1) Public benefit surcharge pursuant to AB 1890.

(2) Three-year rate increase approved by City Council on June 4, 2002.

(3) Combined effect of Electric Reliability Rate Plan and Electric Utilities Rate Plan approved by City Council on December 1, 2006 and December 4, 2007, respectively.

Capital Improvement Program

Beginning on July 1, 2007, the City estimates that it will invest up to $391 million in capital improvements to the Electric System over the next five years. The Capital Improvement Program will be funded with bonds proceeds, including the proceeds of the 2008D Bonds, rate revenues and contributions in aid from developers, with the majority of the capital expenditures dedicated to constructing additional internal generation, a new substation, and improving and updating the distribution and sub-transmission system.

Two major projects are driving the Capital Improvement Program. The first project is $125 million for the Riverside Transmission Reliability Project, a 230-69 kV substation as a second point of interconnection to the California transmission grid, located within the City. This project will reduce the City's dependence on SCE's Vista substation for supply of electric energy. The second project is $110.0 million to construct Units 3 and 4 at RERC, adjacent to Units 1 and 2, and will help the City's customers avoid "rolling blackouts" on days of peak power demand.

The other major projects scheduled for construction are $50.0 million for recurring projects (small system improvements, services to customers and purchases of certain types of equipment including wood poles, underground conduit, transformers, meters, capacitors and minor substation equipment), $21.9 million for capital improvements at SONGS, including site improvements, security upgrades and the SG replacement for both units which could result in a life extension of 10 years or more, $16.9 million for replacement of obsolete equipment and additions at various substations, including the installation of power transformers, $14.6 million for the overhead to underground conversion program, $12.0 million for construction of overhead and underground feeders, $8.5 million for distribution facilities to serve new customers, $10.0 million for Riverside Renaissance retrofit project to replace obsolete street lights in downtown neighborhoods, $4.9 million for replacement of deteriorating underground cable, $3.3 million for conversion of distribution lines from 4 kV to 12 kV to replace deteriorated facilities and prevent overloading the 4 kV system, $5.0 million for a new Customer Information System for utility billing, $3.6 million for the expansion of the City's fiber communication system, $1.8 million for major street light projects, $1.6 million for general improvements to Springs and RERC, and $1.5 million in other small miscellaneous projects.

Employee Relations

As of June 30, 2007, 376 City employees were assigned specifically to the Electric System. Certain functions supporting Electric System operations, including meter reading, customer billing and collections, are performed by the staff of the Department. Substantially all of the non-administrative City personnel assigned to the Electric System are represented by the International Brotherhood of Electrical Workers ("IBEW"). The City and IBEW are parties to a Memorandum of Understanding that expires on September 30, 2010. Portions of the administrative staff are represented by the Service Employees International Union ("SEIU"). The City and the SEIU are parties to a Memorandum of Understanding that expires on June 30, 2010. The Electric System has faced no strikes or other work stoppages within the last ten years and the City does not anticipate any in the near future.

Retirement benefits to City employees, including those assigned to the Electric System, are provided through the City's participation in the Public Employees Retirement System ("PERS") of California, an agency, multiple-employer, public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California. All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service, and salary. Employees may retire at age 55, and receive 2.7 percent of their highest salary in a twelve month consecutive period, for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

Employee contributions are eight percent of their annual covered salary. The Electric System is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The Electric System pays both the employee and employer contributions. Citywide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2007, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007. See also Note 1 to Appendix B - "Audited Financial Statements of the City of Riverside Electric Utility for the Fiscal Year Ended June 30, 2007" for further discussion.

The City provides post-retirement healthcare benefits by making defined contributions to a pooled fund for all active employee members of IBEW and SEIU. Upon retirement, retirees pay the full amount of applicable premiums; however, they participate in the City's healthcare plans and, as such, an implicit subsidy exists. The City is currently evaluating the impact of the implicit subsidy to the cost of the existing healthcare plans. The City provides no other post-retirement benefits other than those described herein.

Insurance

The Electric System's insurance needs are handled by the Risk Management Section of the City Manager's Office. Liability and workers' compensation Internal Service Insurance fund balances are based on annual actuarial studies and reviews by the City's Risk Manager and an outside insurance consultant. The City, including the Electric System, is self-insured for up to $3 million for liability and up to $3 million for workers' compensation. The City has joined with a group of other municipalities under the California Municipal Excess Liability ("CAMEL") Program to participate in an insurance policy that provides excess coverage of $20 million for liability. The City also has an insurance policy that provides excess coverage with a $25 million limit for workers' compensation. The City maintains property insurance on most City real property holdings with a limit of $100 million subject to a $50,000 deductible for electric substations, generation facilities, and all other structures and facilities. All properties valued at over $50,000 are insured at full replacement value based on periodic appraisals and annual CPI adjustment.

Seismic Issues

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

In October 1999, Duke Engineering and Services ("Duke") completed a comprehensive seismic assessment of all of the Electric System's electricity distribution substations, and recommended a number of minor improvements to enhance bracing, anchoring and reinforcing to reduce displacement during an earthquake. All recommended improvements have been completed.

Electric System Litigation

Crandall Canyon Mine. As previously discussed under the caption "- Power Supply - Intermountain Power Project" above, the City has a 7.617% ownership interest in the IPP Generating Station. On August 6, 2007, portions of the underground workings within the Crandall Canyon Mine (of which IPA has a 50% ownership interest), collapsed, killing six miners whose bodies were never recovered. Ten days later, on August 16, 2007, two additional miners and a mine inspector were killed and two injured in rescue efforts. On August 31, 2007, all rescue efforts were suspended. The mine is now closed and investigations are ongoing by several governmental entities.

On April 3, 2008, a complaint was filed on behalf of the six miners killed on August 6 and two of the injured rescuers against a number of defendants. The claim alleges, among other things, that IPA and other defendants made decisions, acted or failed to act, and otherwise through its acts or omissions caused or permitted mining activities to occur in an unreasonably dangerous and negligent manner. At this time, the City cannot predict the effect on the financial condition of the Electric System as a result of the claim against IPA.

IPA Unit 3 Development Costs. There has been an ongoing interest in, debate and discussion concerning the development of IPP Unit 3 project in Delta, Utah ("IPP Unit 3"). Four entities are involved in the development phase: Utah Associated Municipal Power Systems ("UAMPS"), PacifiCorp, Southern Nevada Water Authority and the City of Glendale, California. The development phase has a budget of $15 million. The current plan for development of IPP Unit 3 had not been approved. The Intermountain Power Project Unit Three Development Agreement, dated as of May 1, 2005, was entered into among the development participants set forth in Exhibit A thereto and the IPA, as development manager.

In November 2007, UAMPS filed a lawsuit in Utah state court relating to the development of IPP Unit 3. PacifiCorp filed a similar lawsuit in November 2007, also in Utah state court. Each complaint alleges that IPA and other defendants have prevented UAMPS and PacifiCorp from developing IPP Unit 3. Each complaint seeks an amount to be determined at trial. The amount of damages was not specified in either complaint. At this time, the City cannot predict the final resolution of these matters or their effects on the financial conditions of the City's Electric System.

California Energy Crisis Litigation. The City has been a party to numerous state and federal investigations and proceedings concerning the 2000-2001 California energy crisis. FERC found that the City was not guilty of market manipulation; however, it also ruled that the City and other municipal utilities were subject to FERC's refund authority for sales made into the centralized California markets during the energy crisis. Subsequently, the Ninth Circuit Court of Appeals overruled FERC and the United States Supreme Court upheld this decision. In response to the Court's decision, the California Electricity Oversight Board, the California Attorney General, Pacific Gas & Electric Company ("PG&E"), SCE and SDG&E ("California Parties") filed suit against the City and other publicly-owned utilities in federal and California state courts asserting breach of contract and unjust enrichment claims related to transactions made during the energy crisis. On February 26, 2008, the City and the California Parties filed a settlement agreement with FERC resolving all litigation related to the energy crisis. Under the agreement, the City will receive its unpaid receivables with interest along with its deposit with the California Power Exchange ("Cal PX") and will pay $1.27 million in refunds. The net result will be a receipt by the City of approximately $3.8 million. The settlement proceeds are expected to be paid 30 days after the settlement is approved by FERC.

FERC Amendment 60 Litigation. On May 11, 2004, the ISO filed Amendment No. 60 to its Tariff to modify the ISO's process for dispatching generation and allocating associated costs. Numerous parties, including the City as a member of the "Southern Cities" group, submitted testimony to FERC on the allocation of these costs, and a hearing was held in 2005. On October 31, 2005, the Presiding Administrative Law Judge issued an Initial Decision, and on December 27, 2006, FERC issued an order generally affirming the determinations in the Initial Decision. The FERC order adopted the City's position with respect to "South-of-Lugo" costs, which would have resulted in a large part of these generation dispatch costs being allocated to SCE. On November 20, 2007, FERC issued its Order on Rehearing, reversing its position on South-of-Lugo costs in a manner that would require the City to share these costs. The City and a number of other parties filed requests for rehearing of the Order on Rehearing, and those requests remain pending before FERC. Due to the complicated process for calculating costs allocations, if FERC's Order on Rehearing is upheld or overturned, it is impossible at this time to estimate the City's likely cost exposure.

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

FINANCIAL RESULTS OF THE ELECTRIC SYSTEM

Revenues

Gross operating revenues from the sale of electricity and transmission increased from approximately $202.1 million in the fiscal year ended June 30, 2003, to approximately $269.3 million in the fiscal year ended June 30, 2007, an increase of $67.2 million or 33.2%. For the same period, retail sales to customers increased approximately $63.6 million or 36.2%, from $175.6 million to $239.3 million for the fiscal year ended June 30, 2007. The following table sets forth such electric sales during the periods shown.

REVENUES FROM SALES OF ELECTRICITY
(In Thousands)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Domestic	$ 68,649	$ 80,872	$ 79,786	$ 85,243	$ 94,426
Commercial	48,974	57,079	59,998	53,773	55,421
Industrial	52,380	56,117	59,157	71,084	83,698
Other	5,619	6,354	6,337	7,139	5,713
Wholesale Sales	17,806	9,581	15,249	11,952	9,913
Transmission Revenue[1]	8,661	20,917	20,213	20,043	20,097
Total	$202,089	$230,920	$240,740	$249,234	$269,268

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

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

AVERAGE BILLING PRICE
(Cents Per Kilowatt-Hour)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
Domestic	11.0	11.4	11.8	12.2	12.6
Commercial	10.8	10.8	11.3	11.3	12.1
Industrial	7.9	8.2	8.4	8.8	9.1
Other	11.9	12.3	12.8	12.4	14.5
Average - All Classes Combined	9.8	10.2	10.5	10.7	11.0

Operating Expenses

For the period ending June 30, 2007, the total operating expenses of the Electric System were $187.7 million excluding depreciation.

Operating expenses (excluding depreciation) increased from $155.7 million in the fiscal year ended June 30, 2003 to $187.7 million in the fiscal year ended June 30, 2007, an increase of $32.0 million or 20.5%. With the exception of power supply costs (including purchased power and transmission expenses), overall distribution operating expenses increased from $22.6 million for fiscal year ended June 30, 2003 to $32.3 million for fiscal year ended June 30, 2007, an increase of $9.7 million or 43.1%. Although purchased power and transmission expenses increased during this four year period, they were offset by an increase in excess power sales and additional transmission revenues. Purchased power and transmission costs, net of

wholesale sales and transmission revenues, increased from $106.7 million for the fiscal year ended June 30, 2003 to $125.4 million for the fiscal year ended June 30, 2007, an increase of $18.7 million or 17.5%. Purchased power expenses for fiscal years 2002-03 through 2006-07 include the costs for PVNGS, the IPP Generating Station, Hoover, CDWR, BPA, Deseret, renewable resources, forward market and, to a limited degree, spot market energy purchases. Power costs also include costs of transmission and production costs at SONGS, Springs and RERC.

Transfers to the General Fund of the City

Effective December 1, 1977, transfers to the General Fund of the City of surplus funds of the Electric System (after payment of Operating and Maintenance Expenses and debt service) are limited by Article XII of the City Charter, amendment of which requires voter approval. Such transfers are limited to 12 equal monthly installments during each fiscal year constituting a total amount not to exceed 11.5% of the Gross Operating Revenues, exclusive of any surcharges, for the last fiscal year ended and reported by an independent public auditor. The transfers to the General Fund of the City for the fiscal year ending June 30, 2007 were $27.4 million, equal to approximately 9% of the prior fiscal year's Gross Operating Revenues, and includes a $3.0 million increase (agreed upon in the prior year to address the City's budget challenges), an additional $2.0 million to help fund the Riverside Renaissance, and $2.25 million as the City's portion of the Department's Transmission Revenue Requirement as a result of becoming a Participating Transmission Owner. See discussion under the subcaption "- Competitive Transition Account / Reserves" below. The budgeted transfer to the General Fund of the City for the fiscal year ending June 30, 2008 is $27.4 million, equal to approximately 9% of the prior fiscal year's Gross Operating Revenues. See "ELECTRIC SYSTEM STRATEGIC PLAN - Operating Cost Reductions and Competitive Transition Account / Reserves."

Competitive Transition Account / Reserves

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

Effective July 1, 2003, the City Council approved the dissolution of the CTA. The funds from the CTA are to be used for establishing a Regulatory Risk Reserve Account for $4.0 million, an Energy Risk Management Reserve Account for $11.0 million and transferring the remaining balance of $14.0 million to the Operating Risk Reserve Account, all of which are considered internally restricted assets. The combined balances of the three reserve accounts was $91.8 million at December 31, 2007. These funds are available for current operations, or other strategic purposes upon approval of the Board and the City Council.

Investment Policy and Controls

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

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

The City's portfolio is currently comprised of fixed rate United States Government Agency Bonds and corporate notes which are rated at least "A" by at least one rating agency and money market funds, including the State of California Local Agency Investment Fund. The City entered into certain interest rate swap agreement in connection with its previously issued electric system revenue bonds. See "PLAN OF FINANCE - Subordinate Interest Rate Swap Agreements" herein for additional information.

Significant Accounting Policies

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

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

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

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

Summary of Operations

The following table shows the Net Operating Revenues of the Electric System available for debt service and depreciation as calculated in accordance with the flow of funds in the Resolution, and has been prepared by the City based upon audited financial statements for the Electric System for fiscal years 2002-03 through 2006-07 and on unaudited financial information for the six months ended December 31, 2006 and December 31, 2007.

HISTORICAL SUMMARY OF OPERATIONS AND DEBT SERVICE COVERAGE[1]
(Dollars in Thousands)

	Fiscal Year Ended June 30,					Six-Months Ended December 31, (Unaudited)	
	2003	2004	2005	2006	2007	2006[2]	2007[2]
Operating Revenues:							
Residential	$ 68,649	$ 80,872	$ 79,786	$ 85,243	$ 94,426	$ 53,380	$ 56,076
Commercial and Industrial and Other	106,973	119,550	125,492	131,996	144,832	73,654	81,054
Wholesale Sales	17,806	9,581	15,249	11,952	9,913	5,063	5,657
Transmission Revenue[3]	8,661	20,917	20,213	20,043	20,097	12,512	10,764
Other	2,230	2,182	3,060	2,844	2,385	1,186	1,919
Total Operating Revenues Before (Reserve) / Recovery	204,319	233,102	243,800	252,078	271,653	145,795	155,470
Reserve for Uncollectible, Net of (Reserve) / Recovery	(1,218)	(293)	(752)	(371)	(600)	(319)	(447)
Total Operating Revenues, Net of (Reserve) / Recovery	203,101	232,809	243,048	251,707	271,053	145,476	155,023
Interest Income	4,286	2,747	5,183	7,269	11,118	3,919	5,936
Capital Contributions	2,254	4,418	12,864	4,866	6,262	1,411	2,319
Non-Operating Revenues	785	1,049	1,255	1,244	1,351	697	709
Total Revenues	$210,426	$241,023	$262,350	$265,086	$289,784	$151,503	$163,987
Operating Expenses:							
Nuclear Production	$ 11,518	$ 11,372	$ 11,965	$ 12,046	$ 12,689	$ 6,474	$ 6,662
Purchased Power	100,127	96,672	97,220	112,941	112,834	63,510	66,264
Transmission Expenses	21,538	33,651	28,348	29,520	29,902	16,134	14,761
Distribution Expenses	7,403	7,850	8,398	8,796	11,040	5,157	5,558
Customer Account Expenses	5,265	5,746	5,828	6,529	7,424	3,609	4,491
Customer Service Expenses	781	875	804	749	917	438	745
Administration & General Expenses	4,032	5,310	4,824	6,515	6,403	4,190	5,464
Clearing & Miscellaneous Expenses	5,073	5,704	6,772	7,325	6,491	3,294	4,234
Total Expenses[4]	$155,737	$167,180	$164,159	$184,421	$187,700	$102,806	$108,179
Net Operating Revenues Available for Debt Service And Depreciation	$ 54,689	$ 73,843	$ 98,191	$ 80,665	$102,084	$ 48,697	$ 55,808
Debt Service Requirements on Bonds	$ 18,806	$ 21,838	$ 26,698	$ 30,260	$ 33,015	$ 17,014	$ 16,849
Debt Service Coverage Ratio	2.91x	3.38x	3.68x	2.67x	3.09x	2.86x	3.31x

(1) Excludes restricted revenues and expenses related to Public Benefits program not available to pay debt service costs.

(2) From July 1, 2006 through December 31, 2006 and July 1, 2007 through December 31, 2007, unaudited.

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

(4) Does not include contributions to City's General Fund of $15,333,000, $16,177,000, $18,572,000, $22,037,000, and $27,393,000 for fiscal years 2002-03 through 2006-07, respectively.

Audited Balance Sheets and Related Statements

The following table presents summaries of financial data relating to the Electric System for fiscal years 2002-03 through 2006-07. This data is extracted from the City's Electric Utility Audited Balance Sheets and Related Statements for such fiscal years.

The City's Electric Utility Audited Balance Sheets and Related Statements for the fiscal year 2006-07 were audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor"), in accordance with generally accepted auditing standards, and contain opinions that the financial statements present fairly the financial position of the Electric System. The reports include certain notes to the financial statements which may not be fully described below. Such notes constitute an integral part of the audited balance sheets and related statements. Copies of these reports are available on request from the Department and are included in Appendix B.

ELECTRIC FUND BALANCE SHEET
(In Thousands)

	Fiscal Year Ended June 30,				
	2003	2004	2005	2006	2007
ASSETS					
Utility plant:					
Production	$174,035	$175,595	$178,505	$255,431	$257,980
Transmission	15,043	15,051	20,418	26,082	26,522
Distribution	241,531	257,678	279,106	327,685	341,836
General	25,190	26,388	22,588	27,210	28,154
	455,799	474,712	500,617	636,408	654,492
Less accumulated depreciation	(200,942)	(215,768)	(230,327)	(246,514)	(266,137)
	254,857	258,944	270,290	389,894	388,355
Construction in progress	16,335	29,941	95,988	26,790	54,663
Land	0	0	6,848[1]	7,040[1]	7,049[1]
Nuclear fuel, at amortized cost	1,127	2,404	2,397	3,129	2,645
Total utility plant	272,319	291,289	375,523	426,853	452,712
Restricted assets	73,036	172,290	115,072[2]	147,248[2]	136,034[2]
Current assets:					
Cash and investments[3]	47,244	70,607	88,292	99,368	105,388
Accounts receivable, net	31,907	30,902	33,968	32,169	39,708
Accrued interest receivable	613	697	941	1,317	1,311
Prepaid expenses	5,278	4,584	6,628	6,551	6,430
Nuclear materials inventory	1,150	1,229	1,311	1,375	1,535
Total current assets	86,192	108,019	131,140	140,780	154,372
Other non-current assets:					
Deferred pension costs	0	0	13,690	13,657	13,570
Deferred purchased power	21,715	18,374	15,034	11,692	8,352
Deferred bond issuance / refunding costs	5,989	12,380	11,291	6,353[4]	5,748[4]
Total other non-current assets	27,704	30,754	40,015	31,702	27,670
Total assets	$459,251	$602,352	$661,750	$746,583	$770,788
EQUITY AND LIABILITIES					
Equity:					
Invested in capital assets, net of related debt	$ 49,303	$ 59,805	$ 97,207	$107,969	$132,605
Restricted for debt service	25,786	33,917	34,383	46,521	46,830
Public Benefit Programs	0	0	4,732	5,259	8,344
Unrestricted	89,665	104,026	118,880	123,854	137,708
Total equity	164,754	197,748	255,202	283,603	325,487
Long-term obligations, less current portion	221,921	322,110	306,144	354,699[4]	334,751[4]
Total equity and long-term obligations	386,675	519,858	561,346	638,302	660,238
Non-current liabilities:					
Pension obligation	0	0	13,690	13,534	13,390
Nuclear decommissioning liability	38,144	41,157	44,030	47,079	50,606
Arbitrage Liability	0	0	0	0	927
Total non-current liabilities	38,144	41,157	57,720	60,613	64,923
Current liabilities payable from Restricted assets:					
Accrued interest payable	2,808	2,557	2,678	2,024	1,851
Deferred revenue-public benefit programs	3,630	3,960	108	240	180
Current portion of long-term obligations	10,780	14,555	15,015	18,815	19,460
Total current liabilities payable from restricted assets	17,218	21,072	17,801	21,079	21,491
Current liabilities:					
Accounts payable	9,736	12,604	17,576	18,512	15,614
Other liabilities	7,478	7,661	7,307	8,077	8,522
Total current liabilities	17,214	20,265	24,883	26,589	24,136
Total equity and liabilities	$459,251	$602,352	$661,750	$746,583	$770,788

(1) For reporting purposes, land is reported as a separate component of the utility plant beginning in fiscal year ended June 30, 2005.

(2) Includes current and non-current restricted assets for historical comparison purposes.

(3) See discussion below under "- ELECTRIC SYSTEM STRATEGIC PLAN - Operating Cost Reductions and Competitive Transition Account / Reserves" below.

(4) Beginning in fiscal year ended June 30, 2007, bond refunding costs were reported net with long-term obligations.

Outstanding Electric Revenue Bonds and Other Obligations

Electric Revenue Bonds Outstanding. As indicated in the following table, upon the issuance of the 2008D Bonds, the City will have outstanding Bonds in the aggregate principal amount of $545,125,000 issued under the Resolution. In connection with the issuance and delivery of the Variable Rate 2008 Bonds, the City entered into a certain reimbursement agreement with Bank of America, N.A. The City's payment obligations under such reimbursement agreement, as well as certain reimbursement obligations to the Insurer, constitute Parity Debt. No other Parity Debt will be outstanding upon the issuance of the 2008D Bonds.

ELECTRIC REVENUE BONDS OUTSTANDING

Name of Issue	Principal Amount
Electric Refunding Revenue Bonds, Issue of 1998	$41,410,000
Electric Revenue Bonds, Issue of 2001	25,990,000
Electric Refunding Revenue Bonds, Issue of 2003	46,710,000
Electric Revenue Bonds, Issue of 2004A	22,160,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A	84,515,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B	57,275,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C	57,325,000
Electric Revenue Bonds, Issue of 2008D	209,740,000
Total	$545,125,000

Subordinate Obligations. As described herein, the City previously entered into the 2004 Swap Agreement and the 2005 Swap Agreements in connection with the 2004B Bonds and the 2005 Bonds of each Series. The obligations of the City under these Swap Agreements constitute Subordinate Obligations pursuant to the Resolution. See "PLAN OF FINANCE - Subordinate Interest Rate Swap Agreement" herein for additional information.

Debt Service Requirements

The following table indicates the scheduled debt service on the 2008D Bonds, the Variable Rate 2008 Bonds, 2004A Bonds, 2003 Bonds, 2001 Bonds and 1998 Bonds outstanding upon delivery of the 2008D Bonds.

Debt Service Requirements

Period Ending (October 1)	Parity Bond Principal[1]	Parity Bond Interest[2]	2008D Bonds Principal	2008D Bonds Interest	Total Debt Service
2008	$ 20,345,000.00	$ 5,932,000.11	--	$ 3,728,551.11	$ 30,005,551.22
2009	21,300,000.00	11,995,862.00	--	10,246,400.00	43,542,262.00
2010	22,295,000.00	11,006,718.52	--	10,246,400.00	43,548,118.52
2011	21,050,000.00	9,942,660.00	--	10,246,400.00	41,239,060.00
2012	22,040,000.00	9,008,293.76	--	10,246,400.00	41,294,693.76
2013	21,080,000.00	7,942,993.76	--	10,246,400.00	39,269,393.76
2014	14,950,000.00	6,904,716.26	--	10,246,400.00	32,101,116.26
2015	15,675,000.00	6,233,940.00	--	10,246,400.00	32,155,340.00
2016	12,945,000.00	5,674,585.00	--	10,246,400.00	28,865,985.00
2017	7,670,000.00	5,237,890.50	$ 3,460,000.00	10,246,400.00	26,614,290.50
2018	7,970,000.00	4,968,986.02	3,560,000.00	10,115,031.26	26,614,017.28
2019	8,300,000.00	4,689,262.76	3,650,000.00	9,975,956.26	26,615,219.02
2020	8,600,000.00	4,427,824.02	3,755,000.00	9,829,956.26	26,612,780.28
2021	8,950,000.00	4,156,938.26	3,825,000.00	9,679,756.26	26,611,694.52
2022	9,200,000.00	3,875,026.76	4,015,000.00	9,521,975.00	26,612,001.76
2023	7,025,000.00	3,585,246.26	6,650,000.00	9,351,337.50	26,611,583.76
2024	7,225,000.00	3,365,348.52	7,000,000.00	9,024,087.50	26,614,436.02
2025	7,450,000.00	3,139,252.00	7,340,000.00	8,681,587.50	26,610,839.50
2026	7,860,000.00	2,906,155.76	7,530,000.00	8,316,712.50	26,612,868.26
2027	8,315,000.00	2,659,608.00	7,695,000.00	7,945,462.50	26,615,070.50
2028	8,780,000.00	2,398,084.52	7,875,000.00	7,561,337.50	26,614,422.02
2029	9,285,000.00	2,121,258.50	8,040,000.00	7,168,287.50	26,614,546.00
2030	8,700,000.00	1,827,827.26	9,320,000.00	6,766,287.50	26,614,114.76
2031	9,025,000.00	1,549,209.76	9,740,000.00	6,300,287.50	26,614,497.26
2032	9,325,000.00	1,260,184.50	10,215,000.00	5,813,287.50	26,613,472.00
2033	9,650,000.00	961,551.00	10,700,000.00	5,302,537.50	26,614,088.50
2034	10,000,000.00	652,509.76	11,195,000.00	4,767,537.50	26,615,047.26
2035	10,375,000.00	332,259.76	11,700,000.00	4,207,787.50	26,615,047.26
2036	--	--	22,990,000.00	3,622,787.50	26,612,787.50
2037	--	--	24,140,000.00	2,473,287.50	26,613,287.50
2038	--	--	25,345,000.00	1,266,287.50	26,611,287.50
Total	$335,385,000.00	$128,756,193.33	$209,740,000.00	$243,637,726.15	$917,518,919.48

(1) Includes outstanding principal amount of the Variable Rate 2008 Bonds, 2004A Bonds, 2003 Bonds, 2001 Bonds and 1998 Bonds.

(2) Assumes an annual interest rate of 3.111% on the hedged portion of the 2008A Bonds, 3.201% on the 2008B Bonds and 3.204% on the 2008C Bonds, reflecting the anticipated effect of the Swap Agreements. Also assumes an interest rate of 3.500% on the unhedged portion of the 2008A Bonds. See "PLAN OF FINANCE."

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

OUTSTANDING DEBT OF JOINT POWERS AGENCIES
As of December 31, 2007
(Dollars in Thousands)

	Principal Amount of Outstanding Debt	City Participation[1]	City Share of Outstanding Debt[2]
Intermountain Power Agency			
Intermountain Power Project[3]	$2,565,344[4]	7.617%	$234,370
Southern California Public Power Authority			
Palo Verde Nuclear Generating Station	113,715	5.400	6,141
STS	843,170	10.200	86,003
Hoover Dam Uprating	17,400	31.900	5,551
Mead-Phoenix Transmission	65,305	4.000	2,612
Mead-Adelanto Transmission	207,170	13.500	27,968
Total	$3,812,104		$362,645

(1) Participation obligation is subject to increase upon default of another project participant.
(2) Excludes interest on the debt.
(3) Includes subordinate notes and full accreted value at maturity for all capital appreciation bonds.
(4) Excludes certain unamortized refunding charge. See "THE ELECTRIC SYSTEM - Power Supply - Intermountain Power Project" herein.

For the fiscal year ending June 30, 2008, the City's obligations for debt service on its joint powers agency obligations will aggregate approximately $32.6 million. Debt service on joint powers agency obligations is expected to increase to a high of approximately $38 million in fiscal year 2011, but is expected to decline to approximately $24 million in fiscal year 2022. This projection assumes no future debt issuances, and that the interest rate on unhedged (not otherwise fixed through interest rate swap agreements) variable rate joint powers agency debt obligations will be 4.5%. As of December 31, 2007, approximately 21.19% of the joint powers agency obligation debt service was unhedged variable rate debt. Unreimbursed draws under liquidity arrangements supporting joint powers agency variable rate debt obligations bear interest at a maximum rate substantially in excess of the assumed rates stated above. Moreover, in certain circumstances, the failure to reimburse draws on the liquidity agreements may result in the acceleration of scheduled payment of the principal of such variable rate joint powers agency obligations. In addition, swap agreements entered into by the joint powers agencies are subject to early termination under certain circumstances, in which event substantial payments could be required to be made to the applicable swap provider.

ELECTRIC SYSTEM STRATEGIC PLAN

Management and employees, in conjunction with the Board continues, through leadership and creativity, to provide stewardship to the Department.

Strategic Plan

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

As part of an ongoing strategic planning process, the following goals were revised in October 2002 to fulfill the Department's mission statement:

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

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

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

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

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

On November 5, 2004, the Board agreed with management's recommendation that the annual strategic planning process be combined with a series of long-term planning workshops, which began in early 2005, and were completed in June 2005. The Strategic Long Range Plan would develop ten to twenty-year long-term policies and objectives to provide the framework under which to implement the Department's Mission Statement and three-year specific goals.

On October 2, 2006, the Department management held a workshop to update the 2006-2009 Three-Year Strategic Goals and Objectives. As a result, the Board expanded and supplemented previously adopted goals and adopted the following (not in order of priority):

- Improve system reliability, increase capacity and obtain optimal power and water resources
- Attract, develop and retain quality employees
- Increase organizational effectiveness and efficiency
- Increase public awareness and support for Riverside Public Utilities
- Enhance and protect the current excellent financial health of Riverside Public Utilities

Short-term actions to achieve these goals include: (i) implement a funding mechanism to construct the Jurupa Substation and RERC Units 3 and 4, (ii) present for approval an Electric Integrated Resource Plan that identifies future power supply requirements, (iii) present to the Board the results of the Organizational Management Review conducted by a consultant, and (iv) identify and prioritize the top five key business processes and systems for improvement.

In order to ensure maximum efficiency and improvements in operations, management determined that meeting every six months to review / revisit the existing goals / objectives was necessary to reflect any substantive changes in the utility operating environment. On March 19, 2007, September 25, 2007 and March 26, 2008, the Department management held additional workshops to consider the adequacy of the previously approved goals. As a result of these meetings, the Board adopted and articulated the following goals (not in order of priority):

- Improve system reliability, increase capacity and obtain optimal power and water resources
- Attract, develop and retain quality employees
- Enhance organizational effectiveness, efficiency and financial health
- Increase public awareness and support for Riverside Public Utilities
- Provide environmental leadership in renewable energy, conservation and sustainability

In addition to short-term actions from the October 2006 meeting, the following were added: revise the Department's legislative platform to address potential state and federal legislation and develop a timely implementation strategy; develop and begin implementation of a campaign to increase photovoltaic residential installations to a target of 50 new projects by June 30, 2008; and develop a Summer Green Power Customer Awareness Campaign.

Electric Rates

Historically, electric rates for the City's electric customers have been lower than rates for SCE customers. Based on current rates in place as of March 2008, the rate differential with SCE's residential rates varies from 0% for very low power users to 49% for larger power users. The City cannot predict future rate actions with respect to SCE or other utilities.

Operating Cost Reductions and Competitive Transition Account / Reserves

The City has actively worked to reduce operating costs since deregulation began in 1996. Over the succeeding ten years, the City reduced operating and maintenance costs (excluding state mandated public benefit programs), including a 7% reduction in staff, despite an 12% increase in the number of customers and an 23% increase in retail revenues. However, this is no longer sustainable as the system and the City continues to grow and operations and maintenance efforts must increase in order to ensure system reliability. The City's low rates will allow increases without compromising fiscal responsibility while still maintaining the City rate competitiveness.

Also in anticipation of deregulation, the City reduced the General Fund Transfer level to 9% from the all-time high of 10.5% in 1996. It is the City Council's policy to review this transfer annually, and as a result, it was increased by $3.0 million beginning in fiscal year 2005 and an additional $2.0 million beginning in fiscal year 2007. Including the increases, the total amount contributed to the general fund is below the maximum authorized by the City Charter.

The City also plans to continue to build cash reserves, and a portion of the rate increases approved on June 4, 2002 has helped fulfill this goal. The current three-year electric rate plan approved in December 2006 and revised in December 2007 will continue to be fiscally responsible. Excluding operating cash, cash reserves increased from $27.9 million at June 30, 2000 to $91.8 million as of June 30, 2007.

Customer Base

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

Over the last several years, the City aggressively pursued economic development efforts targeted towards new businesses or significant expansion of existing loads pertaining to certain types of businesses (e.g. high tech jobs, large electricity users, and expanding local businesses meeting specific criteria). One of the incentives offered to potential businesses, is qualification under the Economic Development electric rate. See "THE ELECTRIC SYSTEM - Electric Rates and Charges" herein. The results for the City have been extremely successful, resulting in an additional $8.4 million in annual electric revenues, $441 million in private investment, and the creation of approximately 1,700 new jobs. As a result of the recent rate increase process, in order to continue to provide reliable service to existing customers, this rate has been suspended pending the completion of certain system reliability upgrades which are expected to take several years to complete.

Power Resource Portfolio Management

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

The City is updating and finalizing its Long-Range Power Resource Plan and Load Forecast to provide for the anticipated growth in demand. The City has provided for firm resources to cover expected load through fiscal year 2008 and is analyzing the types of resources for its long-range plan to cover expected load in the 2008 to 2013 timeframe. The City is cautious about the types and location of future supply due to market restructuring in California which could have significant financial ramifications. The previous plan was divided into phases, with the first phase calling for the installation of 40 MW of simple-cycle combustion turbines to provide additional peaking capacity and system security. This phase was completed with the construction of Springs, which began commercial operation in October 2002. The second phase consisted of acquiring additional capacity and energy for 2005 and beyond. As previously discussed, the City completed construction of the 98 MW RERC, which commenced commercial operation in June 2006. The City is currently pursuing expansion of RERC with the construction of 98 MW of additional peaking capacity to further enhance system reliability and meet projected customer peak demand, which has experienced unprecedented growth in recent years.

DEVELOPMENTS IN THE ENERGY MARKETS

Background; Electric Market Deregulation

California began the process of restructuring electricity service in the early 1990s by introducing competition into the generation of electricity, with the ultimate goal being lower prices for utility customers. The deregulation legislation was ultimately enacted in 1996 ("AB 1890") and an independent system operator of the transmission system, the ISO, was established, as well as an independent power exchange, the Cal PX. The Cal PX was originally established to permit power generators to sell power on a competitive spot-market basis.

As a consequence of deregulation, the IOUs sold a large portion of their generation resources. As a result, three major IOUs in California, PG&E, SDG&E and SCE were net buyers of electricity. Following the deregulation of the California energy markets, the IOUs were purchasing electricity at fluctuating short-term

and spot wholesale prices through the Cal PX and the ISO while the retail prices that they would charge their residential and small business customers were capped at specified levels.

Financial Difficulties of the IOUs and Certain Other Market Participants. By the summer of 2000, wholesale power sellers were not making sufficient power supplies available in the wholesale spot market, and spot market prices began to rise, swiftly and dramatically. By December 2000, PG&E and SCE had incurred several billion dollars of losses, adversely affecting their creditworthiness and ultimately causing defaults in payments for power purchases in the ISO markets and from other suppliers. Certain other marketers, power suppliers and power plant developers experienced downgrades of their credit ratings. PG&E emerged from bankruptcy on April 12, 2004. The credit ratings of SCE and PG&E have improved since the dislocations of the California energy markets in 2000 and 2001. In early 2001, the Cal PX ceased all operations and filed for bankruptcy protection. See "THE ELECTRIC SYSTEM - Electric System Litigation - California Energy Crisis Litigation" herein for a discussion of the City's settlement of claims related to the Cal PX bankruptcy and the ISO FERC refund case.

State Intervention. In January 2001, the Governor ordered the CDWR to begin buying power for the retail customers of the IOUs. Shortly thereafter, the State of California formally authorized CDWR's power purchase program by enacting Assembly Bill Number 1X ("AB 1X"). AB 1X authorized CDWR to enter into power supply contracts in order to supply the shortfall (the "net short") between each IOU's power needs and its own retained generation. AB 1X also authorized CDWR to collect a charge from the IOUs' customers to allow CDWR to recover its costs, including the above-market cost of CDWR's power contracts, and repayment of over $11 billion of revenue bonds issued by CDWR in October and November 2002. CDWR's authority to enter into new power purchase contracts expired on December 31, 2002, although CDWR continues to supply power to the IOUs under contracts entered into prior to that date.

AB 1X also required the CPUC to suspend the right of retail customers of the IOUs to purchase electricity from suppliers other than CDWR and the IOUs (i.e., direct access or "DA") until CDWR is no longer a supplier of electricity. In March 2002, the CPUC adopted a decision suspending, as of September 20, 2001, any new DA arrangements. In a subsequent decision, the CPUC established a surcharge mechanism under which DA customers were made responsible for paying a share of the costs incurred by CDWR and by the IOUs during the energy crisis. The decision capped the surcharge, known as the DA Cost Responsibility Surcharge ("CRS"), initially at 2.7 cents / kilowatt-hour. In March 2005, the CPUC issued a ruling outlining the process for calculating the DA CRS based on a prescribed methodology. On June 2, 2005, the Administrative Law Judge ruled that formal proceedings will be scheduled, as necessary, to assess whether the DA CRS cap should be adjusted prospectively to assure that its level remains adequate for under collections to be fully paid down by 2011. The CRS may be imposed upon certain municipal departing load ("MDL") customers in areas annexed or to be annexed into the City and the City Electric System. These MDL customers may be exempted from the CRS or portions thereof under the CPUC's July 21, 2005 opinion and the May 7, 2005 opinion, as further modified by subsequent opinions, relating to MDL. Currently, the City has no DA or MDL customers.

In February 2008, the CPUC issued a decision concluding that the suspension of direct access cannot be lifted at the present time because CDWR is still supplying power as authorized under AB 1X. However, the decision continues the proceeding to consider possible approaches to expediting CDWR's exit from its role of supplying power under AB 1X.

Impact of the California Energy Crisis. During the energy crisis in California during 2000 and 2001, many utilities experienced adverse fiscal consequence and service level impacts to their customers. As a vertically integrated utility that has maintained the obligation to serve its customers, the City is meeting all of its current load requirements primarily with its own resources and has not raise its rates as a direct result of the crisis. While the City experienced increased power supply costs due to increased prices in the short-term market, these increases were offset by the increase in wholesale sales discussed previously. Most wholesale sales from July to December 2000 were to the Cal PX and the ISO. In mid-January 2001, the Cal PX

discontinued operations and filed for bankruptcy protection. Also, wholesale sales to the ISO largely ceased due to the City's creditworthiness concerns relating to others participating in the ISO's markets, except for sales to the ISO in emergency situations. As a result of the Cal PX's January 2001 bankruptcy and the occurrence of credit events affecting others in California's energy market, certain amounts remain owing to the City by the Cal PX and the ISO.

State of California and federal authorities are also conducting investigations and other proceedings concerning various aspects of the California energy markets. These include, for example, investigations by the FERC into alleged overcharging for the sale of electricity (including sales by municipal utilities) and alleged manipulation of the electricity market. Although FERC found that the City was not guilty of market manipulation, the City is not able to predict the outcome of existing investigations and proceedings regarding California's energy crisis or whether further investigations, proceedings, litigation or other actions will follow. See "THE ELECTRIC SYSTEM - Electric System Litigation - California Energy Crisis Litigation" herein for a discussion of the City's settlement of claims related to the Cal PX bankruptcy and the ISO FERC refund case.

During 2000 and 2001, California experienced extreme fluctuations in the prices and supplies of natural gas and electricity in much of the State. Licenses for new power plants have been issued by the CEC, construction on several power plants has been completed and construction of additional power plants is underway. Progress on new transmission line projects within California has been slow. There also has been a substantial rise in the cost of natural gas, which is the fuel source for many of California's electric generating units. State agencies have issued warnings that further power shortages are possible for Southern California. As a result of the foregoing and other factors, no assurance can be given that measures undertaken during the last several years, together with measures to be taken in the future, will prevent the recurrence of shortages, price volatility or other energy problems that have adversely affected the City and other California electric utilities in the recent past.

Market Redesign and Technology Upgrade

In response to the electricity market manipulation that occurred during the 2000-01 energy crisis and the underlying need for improved congestion management, the ISO has undertaken an initiative called Market Redesign and Technology Upgrade, referred to as MRTU, to implement a new day-ahead wholesale electricity market and to improve electricity grid management reliability, operational efficiencies and related technology infrastructure. The ISO has delayed the start date of MRTU several times with the most recent implementation expected in fall 2008. The City has been actively involved in the process to test the final MRTU system functionality and has provided feedback to the ISO. The redesigned California energy market under MRTU is to include the following new features, among others, which are not part of the current ISO real-time only market:

- an integrated forward market for energy, ancillary services and congestion management that operates on a day-ahead basis;
- a congestion management process that represents all network transmission constraints to determine electric transmission congestion costs and credits between two locations and charged to the market participants;
- CRRs to allow market participants to hedge the financial risks of ISO-imposed transmission congestion costs in the MRTU day-ahead market;
- local energy prices by price nodes (currently expected to be approximately 3,000 nodes in total), also known as locational marginal pricing; and
- new market rules and penalties to prevent gaming and illegal manipulation of the market as well as modifications to certain existing market rules.

The ISO implementation of MRTU to restructure California's wholesale electric market could adversely affect the costs of operating the City's Electric System due to reasons such as: (i) significant cost to

implement MRTU in its Electric System; (ii) costs associated with CRRs in the event that City acquired CRRs are not sufficient to hedge the financial risks associated with the City's ISO-imposed congestion costs under MRTU; (iii) the new market mechanisms created by MRTU results in any price / market flaws that are not promptly and effectively corrected by the market mechanisms, the ISO or the FERC; (iv) either the ISO's or the City's MRTU-related systems and software do not perform as intended or (v) the City is unable to timely identify and implement new operating procedures necessary under MRTU or to achieve operating and capital costs budgeted based on current expectations. MRTU is expected to add significant market complexity. The City continues to monitor and participate in the developments under MRTU and continues to implement changes to the appropriate systems and software interfacing with the ISO.

Resource Adequacy Requirement

In September 2005, the Governor signed into law AB 380, which requires the CPUC to establish resource adequacy requirements for all Load Serving Entities ("LSEs") within the CPUC's jurisdiction. In addition, Assembly Bill 380 requires publicly-owned utilities to procure adequate resources to meet their peak demands and reserves. In October 2005, the CPUC issued a decision stating that LSEs under its jurisdiction would be required to demonstrate that they have acquired capacity sufficient to serve their forecast retail customer load plus a 15-17% reserve margin. The City believes that it has adequate resources to meet its peak demands and reserves.

State Legislation

A number of bills affecting the electric utility industry have been introduced or enacted by the California Legislature. In general, these bills provide for reduced greenhouse gas emission standards and greater investment in energy-efficient and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards. The following is a brief summary of certain of these bills.

Greenhouse Gas Emissions. In its 2003 Integrated Energy Policy Report, the CEC recommended that utilities account for the cost of greenhouse gas ("GHG") emission reductions in utility procurement decisions. In December 2004, the CPUC also established an \$8-\$25/ton CO_2 fossil fuel adder for the IOUs to reflect the amount of carbon dioxide that would be emitted by a fossil fuel electric generating unit. The adder represents an estimate of future costs associated with the purchase of carbon dioxide offsets and financial risk associated with potential future regulation of GHG emissions.

On June 1, 2005, the Governor signed Executive Order S-03-05, which placed an emphasis on such efforts to reduce GHG emissions by establishing statewide GHG reduction targets. The targets are: (i) a reduction to 2000 emissions levels by 2010; (ii) a reduction to 1990 levels by 2020; and (iii) a reduction to 80% below 1990 levels by 2050. The Executive Order also called for the California Environmental Protection Agency to lead a multi-agency effort to examine the impacts of climate change on California and develop strategies and mitigation plans to achieve the targets. On April 25, 2006, the Governor also signed Executive Order S-06-06 which directs the State to meet a 20% biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to GHG emission reduction.

The Governor signed Assembly Bill 32, the Global Warming Solutions Act of 2006 (the "GWSA"), which became effective as law on January 1, 2007. The GWSA prescribed a statewide cap on global warming pollution with a goal of reaching 1990 GHG emission levels by 2020 and a reduction to 80% below 1990 levels by 2050. In addition, the GWSA establishes a mandatory reporting program to the Air Resources Board ("ARB") for significant GHG emissions and requires the ARB to adopt regulations for significant greenhouse gas emission sources (allowing ARB to design a cap and trade program) and gives ARB the authority to enforce such regulations beginning in 2012.

In addition to the GWSA, Senate Bill 1368 also became effective as law on January 1, 2007 and provides for a restriction on the negotiation of contracts with potential baseload fossil fuel electric generating resources that exceed the rate of emissions for GHG for existing combined-cycle natural gas baseload generation and seeks to allow the CEC to establish a regulatory framework necessary to enforce the GHG

emission performance standard for publicly-owned utilities such as the City. The CPUC has the similar responsibility for the IOUs. The CEC and the CPUC have proposed a GHG emission performance standard of 1,100 lbs./MWh, and are working towards having the implementing regulation go into effect.

Implementation of these regulations must begin in 2012. The CPUC and the CEC are currently formulating recommendations to the ARB for the electric utility and natural gas sectors. Key issues that remain unresolved include the nature of the regulation of utilities, the point of regulation, and the allocation of emissions credits or allowances. The resolution of these issues will have a significant impact on the cost of GHG emission reductions, although it is not possible to estimate the financial impacts at this time. These regulations will likely prevent the City from renewing its long-term contract to purchase energy from coal-fired IPP Generating Station after the current contract expires in 2027.

Meanwhile, Assembly Bill 1925, signed by the Governor on September 26, 2006, requires the CEC to develop a cost effective strategy for the geologic sequestration and management of industrial carbon dioxide. Also on September 26, 2006, the Governor signed Senate Bill 1686, which authorizes the Wildlife Conservation Board (the "WCB") to take into account the potential of forestlands to beneficially reduce or sequester GHG emissions when it prioritizes funds available for proposed acquisitions. Senate Bill 1686 also specifies that the WCB may use policies, protocols and other relevant information developed by the California Climate Action Registry in determining a project's potential to reduce or sequester GHG emissions.

In 2005, the City joined the California Climate Action Registry. As one of the state's first municipal utility members to have its data certified, the City voluntarily measures, monitors and publicly reports its green house gas emissions, thereby creating an inventory of its greenhouse gas emissions that will help achieve the City's goal to reduce the overall Utility's emissions in response to the City Council and legislative mandates.

Energy Procurement. Senate Bill 1037, signed by the Governor on September 29, 2005, requires that each municipal electric utility, including the City, prior to procuring new energy generation resources, first acquire all available energy efficiency, demand reduction, and renewable resources that are cost effective, reliable and feasible. Senate Bill 1037 also requires each municipal electric utility to report annually to its customers and to the CEC its investment in energy efficiency and demand reduction programs.

Assembly Bill 2021, signed by the Governor on September 29, 2006, requires municipal electric utilities, including the City, on or before June 1, 2007 and by June 1 of every third year thereafter, to identify all potentially achievable cost-effective electricity efficiency savings and to establish annual targets for energy efficiency savings and demand reduction over the next 10 years and to report those targets to the CEC within 60 days of adoption. Assembly Bill 2021 also requires each municipal electric utility to report annually to its customers and the CEC a description of its energy efficiency and demand reduction programs, expenditures, cost-effectiveness and actual results.

Renewable Portfolio Standards. In September 2002, the California Legislature enacted and the Governor signed into law Senate Bill 1078. Senate Bill 1078 requires that the IOUs adopt an RPS to meet a minimum of 1% of retail energy sales needs each year from renewable resources and to meet a goal of 20% of their retail energy needs from renewable energy resources by the year 2017. On September 26, 2006, the Governor signed Senate Bill 107 into law, which requires IOUs to have 20% of their electricity come from renewable sources by 2010. Senate Bill 1078 also directed the State's municipal electric utilities to implement and enforce an RPS that recognizes the intent of the Legislature to encourage development of renewable resources, taking into consideration the impact on a utility's standard on rates, reliability, financial resources, and the goal of environmental improvement.

The City adopted an RPS as required by Senate Bill 1078 on July 8. 2003, to procure renewable resources to reach a target of 20% of the Department's energy by 2015. Subsequently, on March 16, 2007 the Board recommended a new RPS, increasing the targets to 20% by 2010 and 25% by 2015. On May 4, 2007, the Board added an additional target of 33% by 2020.

Since the implementation of Senate Bill 1078, the CPUC and the CEC have taken a number of actions that have had an impact on the renewable energy goals set by the legislation. These actions seek primarily to accelerate the time line for meeting the renewable resource development goals and to provide additional

standards for future extension of the goals. In order to overcome the challenges associated with meeting accelerated RPS goals, the CPUC and the CEC supported the implementation of a renewable energy certificate trading system to meet the accelerated RPS goals, but that system is not yet in effect. Proceedings at the CPUC are in progress that are investigating the potential use of tradable renewable energy certificates for use by Community Choice Aggregators and Energy Service Providers in order to facilitate meeting the accelerated RPS goal. Pursuant to Senate Bill 1078, the CEC, collaboratively with the Western Governors' Association and the Western Electricity Coordinating Council, has established the Western Renewable Energy Generation Information System, which is expected to ensure the integrity of renewable energy certificates and prevent the double counting of the certificates.

Solar Power. On August 21, 2006, the Governor signed into law Senate Bill 1 (also known as the "California Solar Initiative"). This legislation would require municipal utilities such as the City, to establish a program supporting the stated goal of the legislation to install 3,000 MW of photovoltaic energy in California. Municipal utilities are also required to establish eligibility criteria in collaboration with the CEC for the funding of solar energy systems receiving ratepayer funded incentives. The legislation gives a municipal utility the choice of selecting an incentive based on the installed capacity, starting at $2.80 per watt, or based on the energy produced by the solar energy system, measured in kilowatt-hours. Incentives would be required to decrease at a minimum average rate of 7% per year. Municipal utilities also have to meet certain reporting requirements regarding the installed capacity, number of installed systems, number of applicants, and awarded incentives.

The City has demonstrated leadership through its commitment to solar generation, with the construction of its first PV project in 2002, having a capacity of 150 kW. Since then, the City has increased its efforts and now has nearly 1 MW of PV generation within the City. The City's programs to address solar generation include public education at local elementary schools, sponsorship of a local radio show titled "Green Power Report" focused on solar energy, and rebates consisting of $3.00 per watt, not to exceed 50% of project costs, with a $50,000 incentive cap for residential and small commercial customers. The incentive cap was increased for medium sized commercial customers eligible for up to $200,000, and the City's largest commercial customers eligible for up to $500,000. For educational institutions who commit to fund the entire project, the Department will rebate up to 80% of the project costs for a maximum incentive not to exceed $250,000.

Impact of Developments in the California Energy Markets on the City

The effect of these developments in the California energy markets on the City cannot be fully ascertained at this time. The electric industry and markets in the western states region, including the governing laws and regulations, continue to face various uncertainties that create risk for the market in general and, in some cases, for the City. Some of the general market uncertainties that exist include compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, volatility in fuel prices and electric energy prices, electric transmission and natural gas transmission constraints, and revisions in the ISO market design. Future changes in the electric industry and markets could have an adverse effect on the City, its Electric System and its ability to procure sufficient power supply at a reasonable price or its ability to pay debt service on the Bonds.

Volatility in energy prices in California may return due to a variety of factors which affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, insufficient generation resources, fuel costs and availability, weather, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the City's revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the City.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Federal Regulation of Transmission Access

EPACT 1992. The Energy Policy Act of 1992 (the "EPACT 1992") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access under Sections 211, 212 and 213 of the Federal Power Act. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry. As amended by EPACT 1992, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require a transmitting utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act. Under EPACT 1992, electric utilities owned by municipalities and other public agencies which own or operate electric power transmission facilities which are used for the sale of electric energy at wholesale are "transmitting utilities" subject to the requirements of Sections 211, 212 and 213.

FERC also encouraged the voluntary formation of regional transmission organizations ("RTOs") that are independent from owners of generation and other market participants and that will provide transmission access on a non discriminatory basis to buyers and sellers of power. IOUs and publicly-owned utilities are encouraged to participate in the formation and operation of RTOs, but are not, at this time, being ordered by FERC to participate. FERC is contemporaneously engaged in a wholesale overhaul of the California market design, referred to initially as the "MD-O2 proceeding" and more recently as the "MRTU proceeding." These FERC proceedings will have impact the City's operation of the Electric System. See "DEVELOPMENTS IN THE ENERGY MARKETS - Market Redesign and Technology Upgrade" above for additional information related to MRTU.

EPACT 2005. In August 2005, President Bush signed the Energy Policy Act of 2005 ("EPACT 2005"). EPACT 2005 addresses a wide array of energy matters that could affect the entire electric utility industry, including the City's Electric System. It expands FERC's jurisdiction to require open access transmission of municipal utilities that sell more than four million megawatt hours of energy and to order refunds under certain circumstances for municipal utilities that sell more than eight million megawatt hours of energy. EPACT 2005 requires that FERC conclude its investigation into the allegations of overcharges during the California energy crisis in 2000 and 2001 and submit a report to Congress. See "THE ELECTRIC SYSTEM - Electric System Litigation - California Energy Crisis Litigation" herein for additional information related to the City's settlement of FERC related litigation.

In response to numerous regional electric reliability crises, EPACT 2005 required the FERC to enforce mandatory national electric reliability standards for all utilities. The North American Electric Reliability Corporation ("NERC"), which had previously issued voluntary reliability standards, was designated by FERC as the national Electric Reliability Organization to develop reliability standards in order to be approved and enforced by FERC. On March 16, 2007, FERC approved 83 reliability standards, and the standards became effective June 18, 2007. The City believes that it is subject to 33 reliability standards and has developed a compliance program. FERC has required that all utilities self-certify compliance on an annual basis and has indicated that it will eventually audit all utilities. Penalties for non-compliance with the standards range from $1,000 to $1 million per violation per day.

EPACT 2005 also provides for criminal penalties for manipulative energy trading practices and the repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities.

Under EPACT 2005, IOUs must offer and the public utilities need to consider offering each of its customer classes a time-based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state has unreasonably withheld approval.

EPACT 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies, including a new two-year program for tax credit bonds for local governments to finance certain renewable energy facilities. EPACT 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection, and provides incentives for the construction of new nuclear plants.

The City is not able to predict at this time the impact that EPACT 2005 will have on the operations and finances of its electric system or the electric utility industry generally.

Rate Regulation

The City sets rates and charges for electric service provided at retail within its boundaries. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered at retail within their boundaries is not subject to the general regulatory jurisdiction of the CPUC. Currently neither the CPUC nor any other regulatory authority of the State of California nor FERC reviews such rates and charges. It is possible that future Constitutional, legislative, and/or regulatory changes could subject such rates, charges and/or service area of the City to the jurisdiction of the CPUC or to other limitations or requirements under federal or state law.

Certain Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with outstanding tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (n) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, and (p) effects of the changes in the economy, (q) effects of possible manipulation of the electric markets and (r) natural disasters or other physical calamities, including, but not limited to, earthquakes. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on its business operations and financial condition, but the impact could be significant. This Official Statement includes a brief discussion of certain of these factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2008D Bonds should obtain and review such information.

RISK FACTORS

The purchase of the 2008D Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

2008D Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of any 2008D Bonds or their interest, nor is the credit or taxing power of the City pledged for the payment of any 2008D Bonds or their interest. No owner of any 2008D Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property. The principal of and interest on any 2008D Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property or upon any of its income, receipts or revenues, except the Net Operating Revenues and other funds, security or assets which are pledged to the payment of the 2008D Bonds and the interest thereon.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2008D Bonds and the Fiscal Agent, and the obligations incurred by the City, may be subject to the following: the limitations on legal remedies against cities in California; the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; principles of equity which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the U.S. Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the state and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2008D Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. Remedies may be limited since the Electric System serves an essential public purpose.

Electric System Expenses and Collections

The City's Electric System, timely payment of debt service on the Bonds and the financial condition of the City are dependent, in part, upon the payment by customers of the amounts billed to such customers for the energy they receive. There are multiple factors that might result in increased overall rates charged to such customers and, as a result, potentially have an adverse effect on collections. Many of these factors are not under the influence or control of the City or are factors over which the City has only limited influence or control. These factors include, but are not limited to, the following factors:

Changes in General Economic Conditions. Significant changes in general economic conditions may be caused by, among other things, fluctuating business cycles, uncharacteristic weather patterns (such a droughts) or the occurrence of natural disasters (such as earthquakes or floods). In addition, a slow down in the State's economy has been attributed to a declining real estate market and high energy and gas prices. Such factors could lead to significant reductions in retail energy sales, resulting in increased retail rates for electric energy to offset reduced revenues.

Energy Market-Driven Increases in Wholesale Power Costs. Wholesale power costs are affected by a number of factors, including, but not limited to, weather, fuel supplies and transmission, transmission systems operations and capacity (including import capability), and generation capacity. Natural gas pipeline transmission interruptions (due to seismic or other environmental events, accidents or intentional acts) could result in higher natural gas prices in California and substantial increases in gas-fired electric generating facility operating costs. Significant incases in the costs of wholesale power could result in the need to increase retail rates for electric energy.

Market Manipulation. The ISO, with the approval from FERC, adopted tariffs, protocols and regulations governing the conduct of energy suppliers and other entities whose activities affect the transmission system. ISO tariffs, protocols and regulations are intended, among other things, to prevent manipulation of the ISO's transmission system. The ISO monitors the activities of transmission system participants, but manipulative behavior could occur, possibly resulting in higher or substantially higher costs.

Impact of These Factors. The factors discussed above (and other factors) might result in increased rates while Bonds remain outstanding. If a combination of one of more such factors lead to increased retail rates for electric energy, such increase could lead to increased delinquencies and non-payments by customers. See "THE ELECTRIC SYSTEM - Electric Rates and Charges" for a discussion of uncollectible accounts.

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

Although the City has covenanted to prescribe, revise and collect rates and charges for the Electric System at certain levels, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the 2008D Bonds.

Rate Regulation

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

Uncertainties of Financial Markets

Uncertainties, disruptions or volatility in the financial markets, including but not limited to, credit or liquidity provider credit rating downgrades, swap provider credit rating downgrades, defaults under swap agreements, substantial fund flows into or out of the market for variable rate bonds, and other factors might affect market rates for variable rate bonds and the rates on the City's variable rate bonds and obligations. See "PLAN OF FINANCE - Refunded Prior Bonds" herein for a description of the City's Variable Rate 2008 Bonds.

Utility Bankruptcy

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

could result in higher electric rates being charged by the City. The City is unable to determine the ultimate impact on the Electric System if such an IOU declares, or is forced into, bankruptcy.

Casualty Risk

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

Certain Other Limitations on Fees and Charges

On July 6, 2005, the California First District Court of Appeals certified for publication The Regents of the University of California v. East Bay Municipal Utility District, 130 Cal.App.4th 1361 (2005), concluding that the capital component of a public utility's periodic water service charges constituted a capital facilities fee within the meaning of California Government Code Section 54999 et seq. (often referred as the "San Marcos Legislation"). The San Marcos Legislation authorizes any public agencies providing public utility service (which is defined to include, among other things, water and electric service) to continue to charge, increase or impose capital facilities fees, including upon public agencies; provided, that the imposition of such capital facilities fees upon certain educational entities, such as the University of California, or state agencies is subject to certain limitations. Among the limitations on the imposition of such capital facilities fees are the following requirements: (i) for capital facilities fees imposed prior to July 21, 1986, (a) the fee must be necessary to defray the actual construction costs of that portion of a public utility facility actually serving the educational entity or state agency and (b) any increase in the fee is limited to the percentage increase in the Implicit Price Deflator for State and Local Government Purchases; (ii) for new capital facilities fees imposed after July 21, 1986, or any increase in a capital facilities fee in excess of the amount set forth in clause (i)(b), an agreement must be reached through negotiations entered into by both parties, and (iii) capital facilities fees imposed for electric utility service are subject to certain additional procedural requirements including certain prior notice, hearing and disclosure requirements. The impact of the East Bay Municipal Utility District decision is to extend the requirements of the San Marcos Legislation to the capital component of a public utility's periodic service charges. The University of California's Riverside campus ("UC Riverside") is the City's largest electric user. On May 12, 1998, the City entered into a Strategic Energy Partnership Agreement (the "Energy Agreement") with the Regents of the University of California ("UC Regents") for the provision of electrical service to UC Riverside. Under the Energy Agreement, the UC Regents and the City agree as to the rates, including capital facilities fees, for bundled electric service to UC Riverside. The Energy Agreement has subsequently been amended three times, and the term has been extended to August 31, 2011.

California Constitution

In 1996 the voters of California approved Proposition 218, known as the "Right to Vote on Taxes Act." This proposition amended the California Constitution to create additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and "property related" fees and charges. Proposition 218 explicitly exempts fees for the provision of electrical service from the limitations. Nevertheless, the proposition could indirectly affect some California municipally-owned utilities, including the City.

Proposition 218 also has extended the voters' initiative power to reduce or repeal previously authorized local taxes, fees, assessments and charges. Whether and the extent to which this power may be used to reduce electric power charges is unclear. However, the City believes that even if its electric rates could be reduced under this initiative power, electric rates could not be reduced in a manner that would impair the City's ability to meet its obligations to the bondholders.

Loss of Tax Exemption

As discussed under the caption "TAX EXEMPTION" herein, interest with respect to the 2008D Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2008D Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the 2008 Resolutions. Should such an event of taxability occur, the 2008D Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Resolution.

TAX EXEMPTION

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the 2008D Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Under applicable Treasury Regulations, for purposes of evaluation of the excludability of interest on the 2008D Bonds, the 2008 Bonds would be treated as a single issue; noncompliance with any of the foregoing requirements in respect of any of the 2008 Bonds could cause the interest on the 2008D Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2008D Bonds. The City has undertaken certain covenants in the 2008 Resolutions necessary to maintain the exclusion of the interest on the 2008D Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law, interest on the 2008D Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenants, interest on the 2008D Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is also of the opinion that, assuming compliance with the aforementioned covenants, the 2008D Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, the interest on the 2008D Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. The receipt or accrual of interest on the 2008D Bonds owned by a corporation may affect the computation of its alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75 percent of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2008D Bonds may affect the tax status of interest on the 2008D Bonds or the tax consequences of the ownership of the 2008D Bonds. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the 2008D Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2008D Bonds from the gross income of the owners thereof for federal income tax purposes. On November 9, 2007 the United States Supreme Court heard oral argument in its review of a decision of the Court of Appeals of Kentucky that held that the Commerce Clause of the United States Constitution prohibits the Commonwealth of Kentucky from exempting interest on bonds issued by the Commonwealth or its localities and authorities from income tax of the Commonwealth of Kentucky while subjecting interest on bonds issued by other states and their localities and authorities to income tax of the Commonwealth. If the decision of the Court of Appeals of Kentucky is affirmed by the United States Supreme Court, it could require states such as the State to eliminate the disparity between the tax treatment of out-of-state bonds and tax treatment of in-state bonds, including bonds issued by the City. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2008D Bonds, or the interest thereon, if any action is taken

with respect to the 2008 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of bond counsel if such advice or approval is given by counsel other than Bond Counsel.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2008 Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2008 Bonds, the City may have different or conflicting interests from the owners. Further, the disclosure of the initiation of an audit of the 2008 Bonds may adversely affect the market price and liquidity of the 2008D Bonds, regardless of the final disposition of the audit.

To the extent that a purchaser of a 2008D Bond acquires that 2008D Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the 2008D Bonds (determined, in the case of a callable 2008D Bond, under the assumption described below), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a 2008D Bond that is callable, the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the 2008D Bond will be called on the redemption date that would minimize the purchaser's yield on the 2008D Bond (or that the 2008D Bond will not be called prior to maturity if that would minimize the purchaser's yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a 2008D Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2008D Bond to the owner.

The excess, if any, of the stated redemption price at maturity of 2008D Bonds of a maturity over the initial offering price to the public of the 2008D Bonds of that maturity set forth on the inside cover page of this Official Statement is "original issue discount." Such original issue discount accruing on a 2008D Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any 2008D Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the 2008D Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a 2008D Bond accruing during each period is added to the adjusted basis of such 2008D Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2008D Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of 2008D Bonds who purchase such 2008D Bonds other than at the initial offering price and pursuant to the initial offering.

Any person considering purchasing a 2008D Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition of the 2008D Bond. Any person considering purchasing a 2008D Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of 2008D Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2008D Bonds under federal individual and corporate alternative minimum taxes.

Although Bond Counsel is of the opinion that interest on the 2008D Bonds is exempt from state personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2008D Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2008D Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2008D Bonds or, in the case of a financial institution, that portion of an owner's interest expense allocated to interest on the 2008D Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the 2008D Bonds, (iii) interest on the 2008D Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the 2008D Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2008D Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the 2008D Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel has expressed no opinion regarding any such other tax consequences.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2008D Bonds are subject to the unqualified approving opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel. Said opinion in substantially the form attached as Appendix E will be delivered at the time of delivery of the 2008D Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. The payment of the fees and expenses of Bond Counsel is contingent upon the closing of the sale of the 2008D Bonds.

LITIGATION

At the time of delivery and payment for the 2008D Bonds, appropriate officers of the City will certify that there is no litigation pending, or, to the knowledge of the City, threatened, (i) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, or the validity of the 2008D Bonds or the power and authority of the City to issue the 2008D Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2008D Bonds.

FINANCIAL STATEMENTS

The financial statements of the City of Riverside Electric Utility as of and for the year ended June 30, 2007 included in Appendix B to this Official Statement have been audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor") as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in Appendix B of its report on such 2006-07 financial statements. The Auditor's review in connection with such 2006-07 audited financial statements included in Appendix B included events only as of June 30, 2007 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

RATINGS

Fitch and Standard & Poor's have assigned their ratings of "AAA" and "AAA," respectively, with the understanding that upon delivery of the 2008D Bonds, the Policy will be issued by the Insurer. In addition, Fitch and Standard & Poor's have assigned underlying ratings of "AA- " and "AA-", respectively, to the 2008D Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained only from the agencies at the following addresses: Fitch Ratings, One State Street Plaza, New York, New York 10004; Standard & Poor's, 55 Water Street, New York, New York 10041. There is no assurance such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2008D Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the 2008D Bonds to provide certain financial information and operating data relating to the Electric System (the "Annual Report") by not later than 270 days following the end of the City's fiscal year (which fiscal year currently ends on June 30), commencing with the Annual Report for the 2007-08 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository, if any. The notices of material events will be filed by the City with the repositories (and with the appropriate State Repository, if any). The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in Appendix D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

While certain of the City's filings with respect to its 1999 Municipal Improvement Corporation Certificates of Participation failed to include certain sales tax information, such filings have been corrected, and the City has not otherwise failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of itself, Citigroup Global Markets Inc. and E. J. De La Rosa & Co., Inc., the underwriters (the "Underwriters") has agreed, subject to certain conditions, to purchase the 2008D Bonds from the City at a price of $213,732,416.39 (which reflects a $555,769.01 of Underwriters' discount, plus $4,548,185.40 of net original issue premium) and to make a bona fide public offering of the 2008D Bonds at not in excess of the initial public offering prices. The Underwriters will be obligated to purchase all of the 2008D Bonds if any 2008D Bonds are purchased.

The Underwriters may offer and sell the 2008D Bonds to certain dealers and others (including underwriters and other dealers depositing such 2008D Bonds into investment trusts) at prices lower than the respective initial public offering prices, and the public offering prices may be changed from time to time by the Underwriters.

FINANCIAL ADVISOR

The City has retained Public Financial Management Inc., of San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance and delivery of the 2008D Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Financial Advisor is contingent upon the issuance and delivery of the 2008D Bonds.

MISCELLANEOUS

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

CITY OF RIVERSIDE, CALIFORNIA

By: /s/ Paul C. Sundeen
Treasurer

By: /s/ David H. Wright
Public Utilities General Manager

APPENDIX A

CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

The Bonds will not be secured by any pledge of ad valorem taxes or General Fund revenues of the City but will be payable solely from the Net Operating Revenues of the City's Electric System. The description of economic and demographic information of the City and County of Riverside set forth in this Appendix A is included in the Official Statement for information purposes only.

General

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

Riverside and San Bernardino Counties cover approximately 27,400 square miles, a land area larger than the State of Virginia. With a population of over 4 million, it ranks as one of the largest MSAs in the United States. Riverside County alone is larger than the State of New Jersey. The MSA, though small geographically in relation to the bi-county area, contains most of the two counties' population.

Municipal Government

The City was incorporated in 1883 and covers 85.6 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council. Functions of the City government are carried out by close to 2,850 full and part-time personnel. The City operates and maintains a sewer, water and electric system. Other City services include police, fire, diversified recreation programs, parks, a museum and libraries.

Population

As of January 1, 2007 the population of the City was estimated to be 291,398 and the County had a population of approximately 2,031,625. As of January 1, 2007, San Bernardino County had a population of approximately 2,028,013. The following table presents population data for both the City and the County.

Table 1
CITY OF RIVERSIDE AND COUNTY OF RIVERSIDE
POPULATION

Year	City of Riverside	County of Riverside
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2001	262,264	1,590,186
2002	270,944	1,653,847
2003	277,459	1,726,321
2004	281,775	1,807,624
2005	287,321	1,888,311
2006	287,820	1,953,330
2007	291,398	2,031,625

Sources: 1960-2000 U.S. Census; 2001-2007 California Department of Finance (Demographic Research Unit)

Personal Income

Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income and personal current transfer receipts. Net earnings is earnings by place of work (the sum of wage and salary disbursements (payrolls), supplements to wages and salaries, and proprietors' income) less contributions for government social insurance, plus an adjustment to convert earnings by place of work to a place-of-residence basis. Personal income is measured before the deduction of personal income taxes and other personal taxes and is reported in current dollars (no adjustment is made for price changes). Per capita personal income is calculated as the personal income of residents of a given area divided by the resident population of the area.

The following table sets forth the per capita personal income in the County and the State for calendar years 2001 through 2005.

Table 2
COUNTY OF RIVERSIDE
PER CAPITA PERSONAL INCOME
Calendar Years 2001 through 2005

Year	County of Riverside	California
2001	$24,661	$32,859
2002	24,789	32,769
2003	25,276	33,469
2004	26,361	35,380
2005	27,167	36,936

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
(1) Per capital personal income was computed using Census Bureau midyear population estimates. Estimates reflect County population estimates available as of March 2007.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 65 elementary, middle schools and high schools. Not all these schools are located within the boundaries of the City. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University. Also located in the City are the California School for the Deaf and the Sherman Institute, a federally-run school for Indians.

The following table sets forth public elementary and secondary school enrollment in the County for school years 2003 through 2007.

Table 3
COUNTY OF RIVERSIDE
PUBLIC SCHOOL ENROLLMENT
School Years 2003 through 2007

Grades	2003	2004	2005	2006	2007
Elementary(1)	247,845	257,868	266,742	275,194	286,207
Secondary(2)	101,762	106,989	114,222	119,989	126,852
Total	349,607	364,857	380,964	395,183	413,059

Source: State Department of Education.
(1) Includes grades K-8 and un-graded elementary students.
(2) Includes grades 9-12 and un-graded secondary students.

The following table sets forth enrollment figures for colleges and universities in the City for school year 2006-07.

Table 4
CITY OF RIVERSIDE
COLLEGE AND UNIVERSITY ENROLLMENT
School Year 2006-07[(1)]

College or University	Enrollment
Riverside Community College	29,486
University of California at Riverside	16,875
California Baptist University	3,409
La Sierra University	1,896

Source: U.S. Department of Education, National Center for Education Statistics.
(1) Data reflects Fall semester enrollment.

Employment

The following table presents the annual average distribution of persons in various wage and salary employment categories for the MSA for calendar years 2002 through 2006. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the MSA. The MSA lays to the west and south respectively of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation.

Table 5
RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA
ANNUAL AVERAGE EMPLOYMENT COMPARISON
Calendar Years 2002 through 2006

	2002	2003	2004	2005	2006
Civilian Labor Force[1]	1,541,400	1,591,600	1,662,500	1,724,700	1,770,500
Employment	1,445,000	1,489,800	1,564,600	1,633,300	1,684,400
Unemployment	96,400	101,800	97,900	91,400	86,100
Unemployment Rate	6.3%	6.4%	5.9%	5.3%	4.9%
Wage and Salary Employment[2]					
Agriculture	20,300	20,300	18,700	18,300	17,200
Natural Resources and Mining	1,200	1,200	1,200	1,400	1,400
Construction	90,900	99,000	111,800	123,300	129,500
Manufacturing	115,400	116,100	120,100	121,000	124,000
Wholesale Trade	41,900	43,500	45,600	49,900	53,800
Retail Trade	137,500	142,700	153,800	165,700	171,500
Trans., Warehousing and Utilities	46,800	50,100	55,500	60,200	63,800
Information	14,100	13,900	14,000	14,500	15,200
Finance and Insurance	23,500	25,700	28,000	30,100	31,900
Real Estate and Rental and Leasing	15,900	16,900	17,700	18,900	20,000
Professional and Business Services	106,800	115,400	125,500	133,200	142,200
Educational and Health Services	112,400	115,800	118,400	119,900	122,700
Leisure and Hospitality	107,200	109,000	116,700	122,600	128,700
Other Services	38,100	38,400	39,300	40,800	42,600
Federal Government	16,900	17,000	17,300	18,700	18,800
State Government	26,600	26,600	26,500	27,000	27,300
Local Government	169,300	167,900	168,700	174,800	178,100
Total, All Industries	1,084,800	1,119,400	1,178,700	1,240,300	1,288,400

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

The 25 largest employers in the County are shown below.

Table 6
COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(As of October, 2007)

	Employer Name	Location	Industry
1.	Boston Scientific Corp	Temecula	Physicians
2.	C A State Transportation	Lake Elsinore	Government
3.	Conduit Networks Inc	Not Available	Computers-Networking
4.	Crossroads Truck Dismantling	Mira Loma	Automobile
5.	Desert Regional Medical Center	Palm Springs	Hospitals
6.	Desert Sands Unified School District	La Quinta	Schools
7.	Eisenhower Medical Center	Rancho Mirage	Hospitals
8.	Hemet Valley Medical System	Hemet	Hospitals
9.	La Quinta Resort & Club	La Quinta	Resorts
10.	Labtechniques	Rancho Mirage	Laboratories-Medical
11.	Marriott-Desert Springs Resort	Palm Desert	Hotels
12.	Morongo Casino Resort & Spa	Cabazon	Tourist
13.	Oasis Distributing	Thermal	Fruits
14.	Palm Springs Unified School District	Palm Springs	Schools
15.	Pechanga Development Corp	Temecula	Casinos
16.	Riverside Community College	Riverside	Schools-Universities
17.	Riverside Community Hospital	Riverside	Hospitals
18.	Riverside County Regional Med	Moreno Valley	Hospitals
19.	Riverside Forklift Training	Riverside	Trucks-Industrial
20.	Robertson's Ready Mix	Corona	Concrete-Ready
21.	Starcrest Products-California	Perris	Internet
22.	Sun World Intl Llc	Coachella	Fruits
23.	T Michael Intl	Perris	Internet
24.	University Of California	Riverside	Schools-Universities
25.	Watson Pharmaceuticals Inc	Corona	Drug

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database.

Housing

The following table sets forth estimates of the City's housing stock for calendar years 2003 through 2007.

Table 7
CITY OF RIVERSIDE
HOUSING STOCK[1]
Calendar Years 2003 through 2007

Type	2003	2004	2005	2006	2007
Single family					
Detached	57,323	58,106	58,673	59,933	60,838
Attached	4,185	4,185	4,139	4,139	4,144
Multifamily					
2 to 4 units	5,824	5,826	5,826	5,832	5,840
5 or more units	20,770	20,801	22,382	22,639	23,147
Mobile homes	2,409	2,431	2,431	2,477	2,477
Total units	90,511	91,349	93,451	95,020	96,446

Source: California State Department of Finance.
(1) Housing units are estimated by adding new construction and annexations, and subtracting demolitions and conversions from the 2000 benchmark or a prior year's estimate.

Construction Activity

The following table provides a summary of residential building permit valuations and nonresidential building permit valuations, and the number of new dwelling units authorized in the City during calendar years 2003 through 2007.

Table 8
CITY OF RIVERSIDE
BUILDING PERMIT ACTIVITY
Calendar Years 2003 through 2007
(Dollars in Thousands)

	2003	2004	2005	2006	2007
PERMIT VALUATION					
New Single-family	$140,055.6	$205,436.7	$333,223.8	$200,821.0	$88,700.6
New Multi-family	93,711.0	23,610.9	44,223.8	32,498.8	59,369.5
Res. Alterations/Additions	19,772.5	22,225.7	22,817.8	17,139.3	183,372.3
Total Residential	$253,539.1	$251,273.3	$400,265.4	$250,459.2	$166,512.4
New Commercial	$62,900.5	$161,598.7	$107,106.2	$118,436.3	$117,693.6
New Industrial	14,973.6	14,593.8	26,909.5	35,484.2	45,943.6
New Other	18,816.8	32,324.4	35,436.2	26,905.6	27,857.2
Com. Alterations/Additions	45,913.7	40,374.2	56,320.9	63,389.2	67,889.5
Total Nonresidential	$142,604.6	$248,891.2	$225,772.7	$244,315.3	$259,383.9
NEW DWELLING UNITS					
Single Family	689	820	1,442	847	342
Multiple Family	1,377	282	521	286	599
TOTAL	2,066	1,102	1,963	1,133	941

Source: Construction Industry Research Board.

Retail Sales

The following table sets forth taxable transactions for calendar years 2002 through 2006 in the City by type of business.

Table 9
CITY OF RIVERSIDE
TAXABLE TRANSACTIONS
Calendar Years 2002 through 2006
(Dollars in Thousands)

	2002	2003	2004	2005	2006
Apparel stores	$ 105,476	$ 124,223	$ 145,023	$ 160,138	$ 174,662
General merchandise stores	510,038	536,795	597,030	625,500	606,351
Food stores	136,076	145,308	154,562	168,015	176,052
Eating & drinking places	257,711	276,757	300,858	330,249	350,911
Home furnishings & appliances	81,844	93,977	102,243	108,873	119,217
Building materials & farm implements	346,277	395,175	517,865	584,760	573,736
Auto dealers and auto supplies	864,486	987,372	1,172,792	1,245,340	1,219,784
Service stations	192,914	222,575	266,658	306,008	342,810
Other retail stores	396,808	427,978	461,968	491,080	519,454
Retail Stores Totals	$2,891,630	$3,210,160	$3,718,999	$4,019,963	$4,082,977
All other outlets	769,277	764,423	884,770	930,291	951,095
Total all outlets	$3,660,907	$3,974,583	$4,603,769	$4,950,254	$5,034,072

Source: California State Board of Equalization.

Community Facilities

Among the City's cultural institutions and activities are a convention center, a municipal art center, a museum, a library, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community, Riverside Community and Kaiser Permanente.

Transportation

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound and local bus service is provided by the Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

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

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

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

To support transportation improvements, in November 1988 County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, County voters approved extending Measure A until 2039. Measure A is expected to generate $4.6 billion between 2009 and 2039. In 1990, voters of the adjacent San Bernardino County approved a similar program, and that sales tax was similarly extended by a vote of the electorate in November 2003.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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Independent Auditors' Report

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Conrad Government Services Division
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To the Honorable City Council and Board of Public Utilities
City of Riverside
Riverside, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, an enterprise fund of the City, as of and for the year ended June 30, 2007 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Electric Utility for the year ended June 30, 2006 and, in our report dated September 30, 2006, we expressed an unqualified opinion on those financial statements.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Riverside, California, Electric Utility, as of June 30, 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Independent Auditors' Report

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To the Honorable City Council and Board of Public Utilities

City of Riverside

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

In accordance with *Government Auditing Standards,* we have also issued our report dated October 12, 2007 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California

October 19, 2007

Management's Discussion and Analysis

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers of Riverside's Electric Utility financial statements, an enterprise fund of the City, this narrative overview and analysis of the financial activities of the Electric Utility (Utility) for the fiscal years ended June 30, 2007 and 2006. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 18 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Fiscal years 2007 and 2006 reflected strong operating results for the Electric Utility, with each year's retail revenues exceeding the previous all-time record, primarily from an expanded customer base, increased consumption due to a prolonged summer heat wave, and the effects of rate increases.

- Retail sales, net of reserve/recovery were $238,658 and $216,868 for years ended June 30, 2007 and 2006, respectively. As a result of the positive operating results, the Electric Utility was able to increase unrestricted cash reserves by $6,020 and $11,076, respectively, which supports the Utility's long-term financial plan goal of strengthening its financial position and building liquidity.
- In August 2005, Fitch Ratings upgraded the City of Riverside's Electric Utility's Revenue bonds to AA- from its previous rating of A+.
- The assets of the Electric Utility exceeded its liabilities (equity) at the close of fiscal years 2007 and 2006 by $325,487 and $283,603, respectively. Of this amount, $137,708 and $123,854, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by $41,884 and $28,401 for fiscal years ended June 30, 2007 and 2006 due to positive operating results from the historic levels of retail sales and other items discussed in this report.
- As of June 30, 2007 and 2006, unrestricted equity represented over 63% and 59% of annual operating expenses, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Electric Utility's financial health.

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

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

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

The ***Notes to the Financial Statements*** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 22 to 37 of this report.

UTILITY FINANCIAL ANALYSIS

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Electric Utility, assets exceeded liabilities (equity) by $325,487 and $283,603 at the close of the fiscal years 2007 and 2006, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2007, 2006 and 2005:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2007	2006	2005
Current and other assets	$ 318,076	$ 319,730	$ 281,266
Capital assets	452,712	426,853	375,523
Total assets	770,788	746,583	656,789
Long-term debt outstanding	334,751	354,699	301,183
Other liabilities	110,550	108,281	100,404
Total liabilities	445,301	462,980	401,587
Invested in capital assets, net of related debt	132,605	107,969	97,207
Restricted	55,174	51,780	39,115
Unrestricted	137,708	123,854	118,880
Total equity (net assets)	$ 325,487	$ 283,603	$ 255,202

Assets

Fiscal Year 2007 The Utility's total assets of $770,788 reflect an increase of $24,205 (3.2%), mainly due to the following:

- The increase in net capital assets (Utility plant) of $25,859 is primarily due to an increase in construction in progress of $27,873 resulting from continued improvements to the Electric Utility's distribution system. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of this financial analysis.
- Current and other assets reflect a net decrease of $1,654 due to positive operating results and the use of bond proceeds and operating cash for construction projects and equipment. Restricted assets decreased by $11,214 primarily due to a $3,527 increase in nuclear decommissioning reserve, a $3,024 increase in Public Benefit Programs' assets, and a $19,918 decrease in bond proceeds used for capital projects. Unrestricted assets increased by $9,560 mostly due to a $6,020 increase in cash and cash equivalents from positive operating results, a $7,539 increase in accounts receivable, offset by a $3,340 decrease in deferred purchased power.

Fiscal Year 2006 Total assets were $746,583, an increase of $89,794 (13.7%), primarily due to a $51,330 increase in net capital assets (Utility plant), relating to the completion of a 99.6 megawatt ("MW") peaking generation plant, as well as other improvements to the Electric Utility's distribution system, and a $38,464 increase in current and other assets. The $38,464 increase is predominantly due to a $32,055 increase in restricted cash and investments, mostly relating to $71,389 in new bond proceeds received on September 20, 2005, a $9,640 increase in current assets from positive operating results, offset by $65,494 of bond proceeds and operating cash used for construction projects.

Liabilities

Fiscal Year 2007 The Utility's total liabilities were $445,301, a decrease of $17,679 (3.8%), due to the following:

- Long-term debt outstanding decreased by $19,948, primarily due to $18,815 in principal repayments and the amortization of bond premiums and deferred bond refunding costs.
- Other liabilities increased by $2,269, due to increases of $3,527 in nuclear decommissioning, $927 in arbitrage, and $645 in the current portion of long term obligations, offset by a $2,898 decrease in accounts payable.

Fiscal Year 2006 Total liabilities were $462,980, an increase of $61,393 (15.3%), predominantly due to an increase in long-term debt outstanding of $53,516, largely due to a $115,725 refunding/revenue bond issue, offset by a $43,515 deposit into a refunding escrow account and $15,015 of principal repayments. Other liabilities increased by $7,877, mostly due to increases of $3,049 in decommissioning liabilities and $3,800 in the current portion of long-term obligations.

Equity (Net Assets)

Fiscal Year 2007 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled $325,487, an increase of $41,884 (14.8%), primarily the result of retail revenues reaching an historic high and contributions from developers, and is comprised of the following:

- A portion of the Utility's equity (40.7%) reflects its investment in capital assets, such as production, transmission, and distribution facilities, less any related outstanding debt used to acquire those assets. This portion totaled $132,605, an increase of $24,636 (22.8%), primarily due to the amount of capital assets constructed or purchased that are not bond financed. The Electric Utility uses these capital assets to provide services to customers; consequently these assets are not available for future spending. Resources needed to repay the outstanding debt shown on the balance sheet must come from other sources such as operations, since capital assets themselves cannot be used to liquidate these long-term obligations. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled $55,174 (17.0% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment, Public Benefit Programs, and other legally restricted assets. This portion increased by $3,394 primarily due to an increase in Public Benefit Programs' assets.
- The unrestricted portion equals $137,708 (42.3% of total equity), an increase of $13,854, and is primarily attributable to positive operating results. This portion may be used to meet the Utility's ongoing obligations to creditors and customers.

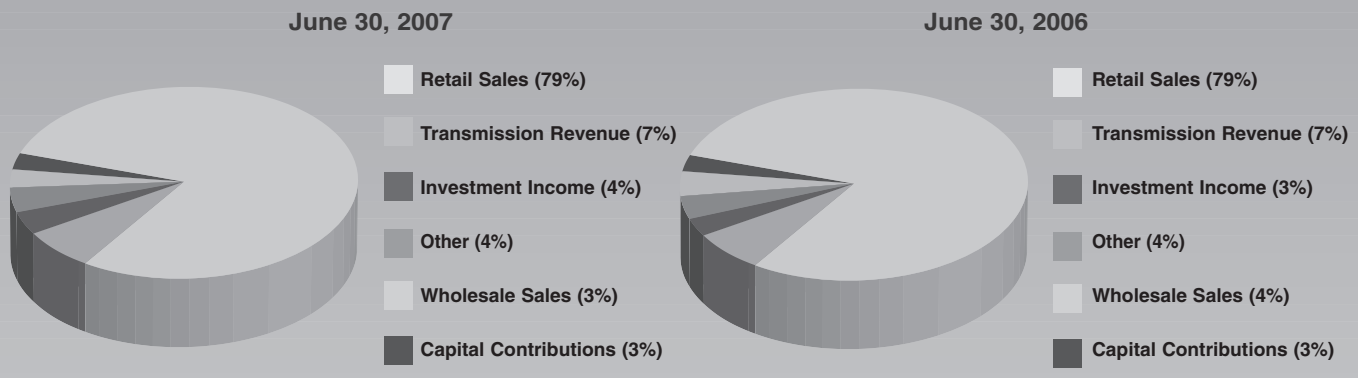
Fiscal Year 2006 Electric fund equity increased by $28,401 (11.1%) to a total of $283,603. The portion of equity invested in capital assets, net of related debt, increased by $10,762. The restricted portion increased by $12,665 primarily due to an increase in the required debt service reserve as a result of the $115,725 refunding/revenue bond issue. The unrestricted portion increased by $4,974 and is primarily attributable to positive operating results.

Positive operating results in the Electric Utility increased equity by $41,884 and $28,401 during fiscal years 2007 and 2006, respectively, as reflected in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2007	2006	2005
Revenues:			
Retail sales, net	$ 238,658	$ 216,868	$ 204,526
Wholesale sales	9,913	11,952	15,249
Transmission revenues	20,097	20,043	19,512
Investment income	11,118	7,269	5,183
Other operating revenues	11,372	10,735	14,169
Capital contributions	9,781	8,231	16,716
Total revenues	300,939	275,098	275,355
Expenses:			
Production and purchased power	129,981	129,298	113,747
Transmission	29,902	29,519	27,647
Distribution	36,341	35,727	31,301
Depreciation	20,836	16,501	15,116
Interest expense and fiscal charges	14,602	13,615	11,518
Total expenses	231,662	224,660	199,329
Transfers to the City's general fund	(27,393)	(22,037)	(18,572)
Changes in equity	41,884	28,401	57,454
Equity, July 1	283,603	255,202	197,748
Equity, June 30	$ 325,487	$ 283,603	$ 255,202

REVENUES BY SOURCES



Fiscal Year 2007 Total revenues for the years ended June 30, 2007 and 2006 were $300,939 and $275,098, respectively, an increase of $25,841 (9.4%), with significant changes in the following:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled $238,658, a $21,790 (10.0%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 79.3% of total revenues. The $21,790 increase is due to 6.3% higher consumption and a rate increase on January 1, 2007, reflecting the first year of the three year Electric Reliability Rate Plan. The number of electric meters increased by 932 (0.9%), with the average annual consumption per residential meter increasing by 444 kilowatt hours (5.9%).
- Wholesale sales of $9,913 decreased by $2,039 (17.1%), due to higher than expected retail customer consumption due to a prolonged summer heat wave, resulting in a lower volume of "excess" power available for sale, as well as lower prices received for market sales.
- Investment income of $11,118 reflects an increase of $3,849 (53.0%), predominantly due to an overall net increase in fair value of investments of $3,446, as well as positive operating results and continued stabilization of market conditions.
- Capital contributions of $9,781 reflect an increase of $1,550 (18.8%), primarily due to a $3,019 loan from the Electric Utility to the City to construct and build out the City's fiber network.

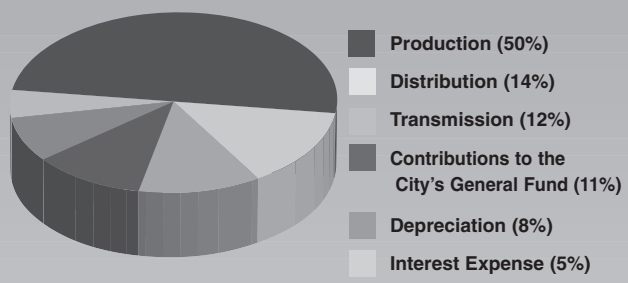
Fiscal Year 2006 Total revenues of $275,098 were comparable to the prior year with variations in the following areas:

- Net retail sales of $216,868 (78.8% of total revenues), increased by $12,342 (6.0%), due to an overall 2.2% rate increase on November 1, 2004, and an increase in consumption. The number of electric meters increased by 831 (0.8%), and the average annual consumption per residential meter increased by 91 kilowatt hours (1.2%).
- Wholesale sales were $11,952, a decrease of $3,297 (21.6%). The decrease was due to less "excess" power available for resale as a result of unplanned unit outages.
- Investment income was $7,269, an increase of $2,086 (40.2%), due to an overall increase in the size of the investment portfolio from $71,389 in new bond funds received in September 2005, positive operating results and a stabilization of market conditions.
- Other revenues were $10,735, a decrease of $3,434 (24.2%), primarily reflecting the effects of Public Benefit Programs.
- Capital contributions were $8,231, a decrease of $8,485 (50.8%), reflecting a lower level of construction projects funded by others, primarily related to relocations of electrical facilities for the I-215/60/91 freeway interchange project funded by the State of California.

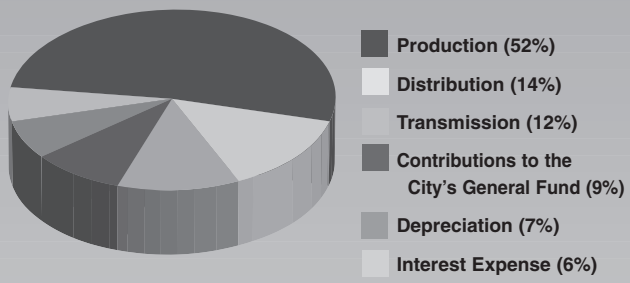
Management's Discussion and Analysis

EXPENSES BY SOURCES

June 30, 2007



June 30, 2006



Fiscal Year 2007 Total expenses for the years ended June 30, 2007 and 2006 were $231,662 and $224,660, respectively, an increase of $7,002 (3.1%). The increase is primarily due to a combination of increases in staffing levels and personnel costs, as well as items discussed below:

- Production and purchased power costs of $129,981 were consistent with the prior fiscal year, although the prior year costs were higher than normal (see discussion below). Overall retail consumption increased 6.3% as a result of load growth and an increase in per capita consumption.
- Depreciation expense of $20,836 increased by $4,335 (26.3%), primarily from completion of the $81,600 Riverside Energy Resource Center in June 2006 along with ongoing capital projects for the distribution system.
- Interest expense and fiscal charges of $14,602 reflect an increase of $987 (7.2%), due to a full year of interest expense for the September 2005 bond issue, and a reduction of capitalized interest during construction in the current year due to a lower level of construction projects.

Fiscal Year 2006 Total expenses were $224,660, an increase of $25,331 (12.7%), due to items discussed below:

- Production and purchased power costs were $129,298, an increase of $15,551 (13.7%), primarily due to a cash-out payment provision for relief of energy delivery obligation, an increase in capacity costs for Intermountain Power Project, an overall increase in spot market energy prices, and additional power purchased during unplanned unit outages.
- Transmission costs were $29,519, an increase of $1,872 (6.8%), mostly due to increased costs to procure firm transmission capacity, as well as a large credit received in fiscal year 2005 for over charges in fiscal year 2004.
- Distribution costs were $35,727, an increase of $4,426 (14.1%), predominantly from increases in personnel-related expenditures.
- Interest expense and fiscal charges totaled $13,615, a $2,097 (18.2%) increase, as a result of the $115,725 refunding/revenue bond issue in September 2005, discussed previously.

Transfers

Transfers to the City's general fund are limited to a maximum of 11.5% of the prior year gross operating revenues by Section 1204(f) of the City Charter. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits.

Fiscal Year 2007 The Electric Utility transferred $27,393, or $5,356 more than the prior year. This amount is comprised of approximately 9.0% of prior year's operating revenues, a $3,000 increase (agreed upon in the prior year to address the City's budget challenges), an additional $2,000 to help fund the Riverside Renaissance, and $2,250 as the City's portion of the Electric Utility's Transmission Revenue Requirement as a result of becoming a Participating Transmission Owner (see Note 9 to the Financial Statements for more discussion).

Fiscal Year 2006 Transfers to the City's general fund of $22,037 (9% of prior year's operating revenues) increased by $3,465 from the fiscal year 2005, primarily as a result of an additional transfer of $3,000 to the City's general fund in order to address the impacts of certain provisions of the state budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Electric Utility's investment in Capital Assets includes investments in production, transmission, and distribution related facilities, construction in progress, nuclear fuel, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of accumulated depreciation at June 30:

	2007	2006	2005
Production	$ 140,402	$ 147,460	$ 77,694
Transmission	16,206	16,383	11,222
Distribution	217,684	212,374	171,802
General	14,063	13,677	9,572
Land	7,049	7,040	6,848
Construction in progress	54,663	26,790	95,988
Nuclear fuel, at amortized costs	2,645	3,129	2,397
Total	$ 452,712	$ 426,853	$ 375,523

Fiscal Year 2007 The Electric Utility's investment in capital assets, net of accumulated depreciation, was $452,712, an increase of $25,859 (6.1%). The increase resulted primarily from the following significant capital projects:

- $2,600 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS").
- $3,500 for the initial stages of the Riverside Transmission Reliability Project, which will provide the Electric Utility with a second point of interconnection with the state's transmission grid.
- $34,600 in additions and improvements to Electric facilities to serve existing and connect new customers.

Fiscal Year 2006 Capital assets, net of accumulated depreciation for the Electric Utility increased $51,330 (13.7%) for a total of $426,853. Major capital projects constructed during the year include the following:

- $26,100 to complete the 99.6 MW Riverside Energy Resource Center (at a total cost of $81,600), which began commercial operation in June 2006.
- $3,100 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS").
- $27,300 in additions and improvements to Electric facilities to serve existing and connect new customers.

Additional information regarding capital assets can be found in Note 3 on Page 28 of this report.

Debt Administration

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

	2007	2006	2005
Revenue bonds	$ 352,830	$ 371,645	$ 311,110
Unamortized premium	7,469	8,559	10,049
Less:			
Current portion	(19,460)	(18,815)	(15,015)
Unamortized bond refunding costs	(6,088)	(6,690)	(4,961)
Total	$ 334,751	$ 354,699	$ 301,183

The Electric Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.10. The Electric Utility's debt service coverage ratio was 3.09, 2.67 and 3.68 at June 30, 2007, 2006 and 2005, respectively. This debt is backed by the revenues of the Electric Utility (revenue bonds).

Fiscal Year 2007 Total long-term debt decreased by $19,948 (5.6%) to $334,751, due to $18,815 in principal repayments, and amortization of bond premiums and deferred refunding costs.

Fiscal Year 2006 Long-term debt of $354,699 increased by $53,516 (17.8%) due to principal repayments of $15,015, offset by the issuance of $115,725 Electric Refunding/Revenue bonds on September 20, 2005, of which $40,175 was used to advance refund portions of the 1998 and 2001 outstanding Electric Revenue bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 28 to 31 of this report.

Credit Ratings

In August 2005, Fitch Ratings upgraded Riverside Public Utilities' ("RPU's") electric bonds to 'AA-' from 'A+' and cited "several improvements to RPU's credit fundamentals resulting from management's successful execution of its business strategy coupled with the increased stability in the California power market over the last several years," as rationale.

In July 2007, Standard and Poor's affirmed the Electric Utility's A+ rating, and issued a Debt Derivative Profile score of '2' on a 4-point scale (with 1 representing the lowest risk and 4 representing the highest risk) for the swap portfolio (see Note 4 on pages 30 and 31 of this report, regarding Interest Rate Swaps on Revenue Bonds), indicating their view that the swap portfolio is a low credit risk.

OTHER DEVELOPMENTS

Environmental Matters

The City has a 7.6% contractual entitlement to the output of Units 1 and 2 at the Intermountain Power Project (see Note 8 for additional discussions), a 1,800 MW coal-fueled power plant located in Delta, Utah. Recent developments in federal and state environmental laws and regulations may impact operations at the plant, and could require significant capital expenditures at these facilities. The City will continue to monitor these laws and assess the impacts, if any, they will have on the operation of the plant through the contract expiration in 2027.

Climate Change

In September 2006, California Governor Schwarzenegger signed into law two bills that would reduce California's Green House Gas emissions ("GHG").

Assembly Bill 32 or the California Global Warming Solutions Act of 2006, seeks to achieve GHG reductions via regulatory programs and market mechanisms, and requires the California Air Resources Board to develop regulations targeted to reduce California's GHG emissions to 1990 levels by 2020. These regulations will be phased-in beginning in 2012 in order to reach the 2020 goal.

Senate Bill 1368 pertains specifically to power generation and long-term procurement of electricity, and requires the California Public Utilities Commission and the California Energy Commission to adopt GHG performance standards applicable to investor and publicly owned utilities. The standards must equal the performance of a combined-cycle gas turbine generator (e.g., emissions are limited to 1,100 pounds of carbon dioxide per megawatt hour).

The City will continue to monitor federal and state developments relating to regulations of GHG emissions in order to determine their impacts on operations. Regulations mandating reductions to GHG emissions could have significant future cost impacts on generating or purchasing power from fossil fuels.

ECONOMIC FACTORS AND RATES

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

The Federal Energy Regulatory Commission (FERC) imposed price cap on purchased power (June 2001) is still in effect, which continues to help stabilize power prices. Forward price curves have stabilized. However, regulatory actions and other factors, including the volatility in natural gas and coal prices, and the California Independent System Operator's Market Redesign and Technology Upgrade scheduled to take effect in early 2008, could impact future power rates.

The City Council approved the Electric Reliability Rate Plan, establishing rate increases for three consecutive years effective January 1, 2007, 2008 and 2009. The Electric Reliability Rate Plan will fund system improvements including additional internal generation, a second interconnection with the state's transmission grid, and replacement of expiring power contracts. The rate increases will also help strengthen the Utility's financial stability by meeting the expected increased costs to operate the Utility, improve system reliability, and build liquidity by increasing cash reserves.

On August 14, 2007, the City Council repealed the previously approved increases in the tiered portion of the residential rates contained in the Electric Reliability Rate Plan, and directed staff to return with another rate proposal that would lessen the impacts to this customer class. A joint City Council/Public Utilities Board workshop was held on September 11, 2007, in which the City Council conceptually approved the need for the rate increase to improve system reliability. A public hearing is scheduled for November 15, 2007 to present a new recommendation, which is expected to be presented to the City Council in December 2007.

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

Requests for Information

This financial report is designed to provide a general overview of the City of Riverside Electric Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Customer Relations or the Utilities Assistant Chief Financial Officer, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.riversidepublicutilities.com.

Balance Sheets

ASSETS	June 30, 2007	June 30, 2006
	(in thousands)	
UTILITY PLANT:		
Production	$ 257,980	$ 255,431
Transmission	26,522	26,082
Distribution	341,836	327,685
General	28,154	27,210
	654,492	636,408
Less accumulated depreciation	(266,137)	(246,514)
	388,355	389,894
Land	7,049	7,040
Construction in progress	54,663	26,790
Nuclear fuel, at amortized cost	2,645	3,129
Total utility plant (Note 3)	452,712	426,853
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	17,051	16,742
Cash and investments at fiscal agent (Note 2)	110,459	125,006
Total restricted non-current assets	127,510	141,748
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	13,570	13,657
Deferred purchased power (Note 8)	8,352	11,692
Deferred bond issuance costs	5,748	6,353
Total other non-current assets	27,670	31,702
Total non-current assets	607,892	600,303
CURRENT ASSETS:		
Unrestricted Assets:		
Cash and cash equivalents (Note 2)	105,388	99,368
Accounts receivable, less allowance for doubtful accounts 2007 $291; 2006 $252	27,730	24,794
Accounts receivable other utilities and governments, less allowance for doubtful accounts 2007 $1,079; 2006 $1,059	11,978	7,375
Accrued interest receivable	1,311	1,317
Prepaid expenses	6,430	6,551
Nuclear materials inventory	1,535	1,375
Total unrestricted current assets	154,372	140,780
Restricted assets:		
Cash and cash equivalents (Note 2)	7,758	4,784
Public Benefit Programs receivable	766	716
Total restricted current assets	8,524	5,500
Total current assets	162,896	146,280
Total assets	$ 770,788	$ 746,583

See accompanying notes to the financial statements

Balance Sheets

EQUITY AND LIABILITIES	June 30, 2007	June 30, 2006
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	$ 132,605	$ 107,969
Restricted for:		
Debt service (Note 5)	46,830	46,521
Public Benefit Programs	8,344	5,259
Unrestricted	137,708	123,854
Total equity	325,487	283,603
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	334,751	354,699
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Note 4)	13,390	13,534
Nuclear decommissioning liability (Note 4)	50,606	47,079
Arbitrage liability	927	-
Total non-current liabilities	64,923	60,613
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	1,851	2,024
Public Benefit Programs payable	180	240
Current portion of long-term obligations (Note 4)	19,460	18,815
Total current liabilities payable from restricted assets	21,491	21,079
CURRENT LIABILITIES:		
Accounts payable	15,614	18,512
Accrued liabilities	5,942	5,346
Customer deposits	2,580	2,731
Total current liabilities	24,136	26,589
Total liabilities	445,301	462,980
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)	-	-
Total equity and liabilities	$ 770,788	$ 746,583

See accompanying notes to the financial statements

Statements of Revenues, Expenses and Changes in Equity

	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
OPERATING REVENUES:		
Residential sales	$ 94,426	$ 85,243
Commercial sales	55,421	53,773
Industrial sales	83,698	71,084
Other sales	5,713	7,139
Wholesale sales	9,913	11,952
Transmission sales	20,097	20,043
Other operating sales	9,536	9,183
Total operating revenues before (reserve)/recovery	278,804	258,417
Reserve for uncollectible, net of bad debt recovery	(600)	(371)
Total operating revenues, net of (reserve)/recovery	278,204	258,046
OPERATING EXPENSES:		
Production and purchased power	129,981	129,298
Transmission	29,902	29,519
Distribution	36,341	35,727
Depreciation	20,836	16,501
Total operating expenses	217,060	211,045
Operating income	61,144	47,001
NON-OPERATING REVENUES (EXPENSES):		
Investment income	11,118	7,269
Interest expense and fiscal charges	(14,602)	(13,615)
Gain on retirement of utility plant	485	308
Other	1,351	1,244
Total non-operating revenues (expenses)	(1,648)	(4,794)
Income before capital contributions and transfers	59,496	42,207
Capital contributions	9,781	8,231
Transfers out - contributions to the City's general fund	(27,393)	(22,037)
Total capital contributions and transfers out	(17,612)	(13,806)
Increase in equity	41,884	28,401
EQUITY, BEGINNING OF YEAR	283,603	255,202
EQUITY, END OF YEAR	$ 325,487	$ 283,603

See accompanying notes to the financial statements

Statements of Cash Flows

	For the Fiscal Years Ended June 30, 2007	2006
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	$ 270,464	$ 259,856
Cash paid to suppliers and employees	(190,555)	(185,430)
Other receipts	1,351	1,244
Net cash provided by operating activities	81,260	75,670
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(27,393)	(22,037)
Principal paid on pension obligation fund	(144)	(156)
Net cash used by non-capital financing activities	(27,537)	(22,193)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(43,733)	(63,791)
Purchase of nuclear fuel	(632)	(1,703)
Proceeds from the sale of utility plant	555	364
Deposit to escrow account for advanced bond refunding	-	(40,685)
Proceeds from the sale of revenue bonds, net of bond premium	-	117,330
Principal paid on long-term obligations	(18,815)	(15,015)
Interest paid on long-term obligations	(14,656)	(14,046)
Capital contributions	6,263	4,866
Bond issuance costs	-	(4,559)
Net cash used by capital and related financing activities	(71,018)	(17,239)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(5,371)	(11,989)
Income from investments	12,051	6,893
Net cash provided (used) by investing activities	6,680	(5,096)
Net increase (decrease) in cash and cash equivalents	(10,615)	31,142
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including $69,801 and $49,735 at June 30, 2006 and June 30, 2005, respectively, reported in restricted accounts)	169,169	138,027
CASH AND CASH EQUIVALENTS, END OF YEAR (including $53,166 and $69,801 at June 30, 2007 and June 30, 2006, respectively, reported in restricted accounts)	$ 158,554	$ 169,169
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 61,144	$ 47,001
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,836	16,501
Amortization of deferred charges-pension costs	87	32
Amortization of nuclear fuel/purchased power	4,456	4,313
Increase (decrease) in allowance for uncollectible accounts	59	(1,511)
Decrease (increase) in accounts receivable	(7,648)	3,189
Decrease in prepaid expenses	121	77
Increase in nuclear materials inventory	(160)	(64)
Increase (decrease) in accounts payable	(2,898)	936
Increase in accrued liabilities	596	638
Increase (decrease) in Public Benefit Programs	(60)	133
Increase (decrease) in customer deposits	(151)	132
Increase in decommissioning liability	3,527	3,049
Other receipts	1,351	1,244
Net cash provided by operating activities	$ 81,260	$ 75,670
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	3,518	3,365
Interfund receivable - Citywide fiber optic network	3,019	-
Increase (decrease) in fair value of investments	848	(425)

See accompanying notes to the financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF ACCOUNTING

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

Electric Utility customers are billed monthly. Unbilled electric service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled $14,238 at June 30, 2007, and $12,551 at June 30, 2006.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

UTILITY PLANT AND DEPRECIATION

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

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

Production plant……..15-30 years

Transmission and distribution plant…….…….....20-50 years

General plant and equipment……..…3-50 years

NUCLEAR FUEL

The Electric Utility amortizes and charges to expense, the cost of nuclear fuel, on the basis of actual thermal energy produced relative to total thermal energy expected to be produced over the life of the fuel. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent nuclear fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company (SCE), on a quarterly basis (see Note 7).

RESTRICTED ASSETS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In January 1998, the Electric Utility began collecting a surcharge for Public Benefit Programs on customer utility bills. This surcharge is mandated by state legislation included in Assembly Bill 1890 and is restricted to various socially beneficial programs and services. The programs and services include cost effective demand-side management services to promote energy efficiency and conservation and related education and information; ongoing support and new investments in renewable resource technologies; energy research and development; and programs and services for low-income electric customers. The activity associated with the surcharge for Public Benefit Programs is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

CASH AND INVESTMENTS

In accordance with Utility policy, the Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The City values its cash and investments in accordance with the provisions of the Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the Statement of Net Assets/Balance Sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity, while maximizing interest earnings.

City-wide information concerning cash and investments for the year ended June 30, 2007, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, or for use on construction of capital assets.

BOND PREMIUMS, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING

Bond premiums, issuance costs, and gains and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and gain or loss on refunding, whereas issuance costs are recorded as other assets.

NUCLEAR DECOMMISSIONING LIABILITY

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility has established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Based on the most recent site specific cost estimate as of July 2005 prepared by ABZ Incorporated, the Electric Utility plans to set aside approximately $1,600 per year to fund this obligation. The funding will occur over the useful life of the generating plant or until the account is fully funded.

Increases to the trusts are from amounts set aside and investment earnings. The investment earnings are included in investment income in the Utility's financial statements. These amounts, as well as amounts set aside, are contributed to the trusts and reflected as decommissioning expense, which are considered part of power supply costs. The total amounts held in the trust accounts are classified as restricted assets and other non-current liability in the accompanying Balance Sheets. To date, the Electric Utility has set aside $50,606 in cash investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. The plant site easement at San Onofre terminates May 2050. The plant must be decommissioned and the site restored by the time the easement terminates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INTERNALLY RESTRICTED CASH RESERVES

Effective July 1, 2003, the City Council approved a Regulatory Risk Reserve Account of $4,000, an Energy Risk Management Reserve Account of $11,000, and an Operating Reserve Account of $14,000, all of which are considered internally restricted assets. The balance as of June 30, 2007 and 2006 respectively are as follows: Regulatory Risk Reserve $4,000 and $45,500, Energy Risk Management Reserve $11,000 and $11,000 and Operating Reserve $76,800 and $27,500, for a combined total of $91,800 and $84,000 and are reflected in cash and cash equivalents in the accompanying Balance Sheets. (See Note 9 for additional discussion on cash reserves)

CUSTOMER DEPOSITS

The City holds customer deposits as security for the payment of utility bills. The Electric Utility's portion of these deposits as of June 30, 2007 and 2006 was $2,580 and $2,731, respectively.

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2007 and 2006. The Electric Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was $5,783 at June 30, 2007, and $5,249 at June 30, 2006, and is included in accrued liabilities in the accompanying Balance Sheets.

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

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

INSURANCE PROGRAMS

The Electric Utility participates in a self-insurance program for worker's compensation and general liability coverage that is administered by the City. The Electric Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility Plant with a limit of $100 million.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2007, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2007 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Electric Utility were $358 and $680 for the years ended June 30, 2007 and 2006, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Electric Utility in future years.

EMPLOYEE RETIREMENT PLAN

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee contributions are 8.0 percent of their annual covered salary. The Electric Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of the PERS funding as of June 30, 2007 and 2006 was 13.18 percent and 19.74 percent, respectively, of annual covered payroll. The Electric Utility pays both the employee and employer contributions. The total Electric Utility's contribution to PERS as of June 30, 2007 and 2006 was $4,192 and $3,923, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2007 and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of $60,000, of which the Electric Utility's share is $13,690 as reflected in the accompanying Balance Sheets as deferred pension costs and a corresponding long-term obligation. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses. The Bonds will be used to fund the unfunded actuarial accrued liability for non-safety employees and the proceeds were deposited with CalPERS. The balance in deferred pension costs as of June 30, 2007 and 2006, was $13,570 and $13,657, respectively. For more discussion relating to the City's issue see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2007.

ARBITRAGE LIABILITY

The Tax Reform Act of 1986 (the Act) requires the Electric Utility to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain debt and interest earnings on the proceeds of the Electric Utility are subject to the requirements of the Act which contain yield restrictions on investment of proceeds from tax-exempt financing in higher yielding taxable securities. The balance in arbitrage liability as of June 30, 2007 was $927.

EQUITY

The Electric Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

Invested in capital assets, net of related debt – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

Unrestricted net assets – this component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Electric Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years 2006-07 and 2005-06, the Electric Utility transferred approximately 9 percent of gross operating revenues, or $27,393 and $22,037, respectively.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

BUDGET AND BUDGETARY ACCOUNTING

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

RECLASSIFICATIONS

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

PRIOR YEAR DATA

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2007 and 2006, consist of the following (in thousands):

	June 30, 2007	June 30, 2006
	(Fair Value)	
Equity interest in City Treasurer's investment pool	$ 130,197	$ 120,894
Investments at fiscal agent	110,459	125,006
Total cash and investments	$ 240,656	$ 245,900

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

	June 30, 2007	June 30, 2006
Unrestricted cash and cash equivalents	$ 105,388	$ 99,368
Restricted assets cash and cash equivalents	24,809	21,526
Restricted assets cash and investments at fiscal agent	110,459	125,006
Total cash and investments	$ 240,656	$ 245,900

NOTE 2. CASH AND INVESTMENTS (continued)

Cash and investments distribution by maturities as of year end are as follows:

Investment Type	Total	Remaining Maturity (in Months) 12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	$ 2,985	$ 2,985	$ -	$ -	$ -
Federal agency securities	49,333	16,663	2,622	9,224	20,824
Investment contracts [1]	58,141	30	28,332	-	29,779
City Treasurer's investment pool [2]					
Money market funds	10,362	10,362	-	-	-
Federal agency securities	79,846	16,469	11,429	51,948	-
Corp medium term notes	6,519	-	6,519	-	-
State investment pool	33,470	33,470	-	-	-
Total	$ 240,656	$ 79,979	$ 48,902	$ 61,172	$ 50,603

Presented below is the actual rating as of year end for each investment type:

Investment Type	Total	Rating as of Year End AAA	Aa	Unrated
Held by fiscal agent				
Money market funds	$ 2,985	$ 2,182	$ -	$ 803
Federal agency securities	49,333	49,333	-	-
Investment contracts	58,141	58,141	-	-
City Treasurer's investment pool [2]				
Money market funds	10,362	-	-	10,362
Federal agency securities	79,846	79,846	-	-
Corp medium term notes	6,519	-	6,519	-
State investment pool	33,470	-	-	33,470
Total	$ 240,656	$ 189,502	$ 6,519	$ 44,635

[1] Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

[2] Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Retirements/ Transfers	Balance, As of 6/30/06	Additions	Retirements/ Transfers	Balance, As of 6/30/07
Production	$ 178,505	$ 76,926	$ -	$ 255,431	$ 2,550	$ (1)	$ 257,980
Transmission	20,418	5,664	-	26,082	439	1	26,522
Distribution	279,106	48,654	(75)	327,685	14,519	(368)	341,836
General	22,588	4,916	(294)	27,210	1,859	(915)	28,154
Depreciable utility plant	500,617	136,160	(369)	636,408	19,367	(1,283)	654,492
Less accumulated depreciation:							
Production	(100,811)	(7,160)	-	(107,971)	(9,607)	-	(117,578)
Transmission	(9,196)	(503)	-	(9,699)	(617)	-	(10,316)
Distribution	(107,304)	(8,029)	22	(115,311)	(9,383)	542	(124,152)
General	(13,016)	(809)	292	(13,533)	(1,229)	671	(14,091)
Accumulated depreciation	(230,327)	(16,501)	314	(246,514)	(20,836)	1,213	(266,137)
Net depreciable utility plant	270,290	119,659	(55)	389,894	(1,469)	(70)	388,355
Land	6,848	192	-	7,040	9	-	7,049
Construction in progress	95,988	63,551	(132,749)	26,790	47,249	(19,376)	54,663
Nuclear fuel	2,397	1,703	(971)	3,129	632	(1,116)	2,645
Nondepreciable utility plant	105,233	65,446	(133,720)	36,959	47,890	(20,492)	64,357
Total utility plant	$ 375,523	$ 185,105	$ (133,775)	$ 426,853	$ 46,421	$ (20,562)	$ 452,712

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2007 and 2006 (in thousands):

	Balance, As of 6/30/05	Additions	Reductions	Balance, As of 6/30/06	Additions	Reductions	Balance, As of 6/30/07	Due Within One Year
Revenue bonds	$ 316,199	$ 112,294	$ (54,979)	$ 373,514	$ -	$ (19,303)	$ 354,211	$ 19,460
Pension obligation	13,690	-	(156)	13,534	-	(144)	13,390	184
Nuclear decommissioning liability	44,030	3,049	-	47,079	3,527	-	50,606	-
Arbitrage liability	-	-	-	-	927	-	927	-
Total long-term obligations	$ 373,919	$ 115,343	$ (55,135)	$ 434,127	$ 4,454	$ (19,447)	$ 419,134	$ 19,644

NOTE 4. LONG-TERM OBLIGATIONS (continued)

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

Revenue Bonds Payable	June 30, 2007	June 30, 2006
$98,730 1998 Electric Refunding/Revenue Bonds: $63,165 serial bonds due in annual installments from $3,200 to $7,085 through October 1, 2013, interest from 5.0 percent to 5.38 percent; $21,595 term bonds due October 1, 2018, interest at 5.0 percent; $13,970 term bonds due October 1, 2022; a portion of the serial and term bonds were advance refunded on September 20, 2005 with the 2005 Electric Refunding/Revenue bonds	$ 47,315	$ 52,900
$47,215 2001 Electric Revenue Bonds: $47,215 serial bonds due in annual installments from $3,135 to $4,280 through October 1, 2014, interest from 3.40 percent to 5.25 percent, were partially advance refunded on September 20, 2005 with the 2005 Electric Refunding/Revenue bonds	29,125	32,160
$75,405 2003 Electric Refunding/Revenue Bonds: $75,405 serial bonds due in annual installments from $7,170 to $8,535 through October 1, 2013, interest from 4.0 percent to 5.0 percent	53,880	60,860
$110,000 2004 Electric Revenue Bonds:		
A- $27,500 2004 Series A Bonds - Serial bonds due in annual installments from $2,645 to $3,695 through October 1, 2014, interest from 4.0 percent to 5.5 percent	24,885	27,500
B- $82,500 2004 Series B Bonds - Auction Rates Securities due in annual installments from $1,250 to $7,000 from October 1, 2014 through October 1, 2029. Interest is variable and rate is subject to weekly repricing (rate at June 26, 2007 was 3.7 percent)	82,500	82,500
$115,725 2005 Electric Refunding/Revenues Series A & B Bonds: $57,850 Series A and $57,875 Series B Auction Rate Securities due in annual installments from $525 to $10,375 through October 1, 2035. Interest is variable and rate is subject to weekly repricing (rate at June 27, 2007 was 3.70 percent for Series A and 3.65 percent at June 29, 2007 for Series B)	115,125	115,725
Total electric revenue bonds payable	352,830	371,645
Unamortized deferred bond refunding costs	(6,088)	(6,690)
Unamortized bond premium	7,469	8,559
Total long-term electric revenue bonds payable, net of deferred bond refunding costs and bond premium	354,211	373,514
Less current portion	(19,460)	(18,815)
Total long-term electric revenue bonds payable	$ 334,751	$ 354,699

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2007, are as follows (in thousands):

	2008	2009	2010	2011	2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2036	Total
Principal	$ 19,460	$ 20,345	$ 21,300	$ 22,295	$ 21,050	$ 86,690	$ 41,490	$ 38,575	$ 42,275	$ 39,350	$ 352,830
Interest	13,602	12,735	11,781	10,810	9,744	35,085	23,520	16,388	9,587	2,366	145,618
Total	$ 33,062	$ 33,080	$ 33,081	$ 33,105	$ 30,794	$ 121,775	$ 65,010	$ 54,963	$ 51,862	$ 41,716	$ 498,448

NOTE 4. LONG-TERM OBLIGATIONS (continued)

ADVANCE REFUNDING

In prior years the Electric Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Electric Utility's financials statements. At fiscal year ended June 30, 2007, $40,175 of bonds outstanding are considered defeased.

2005 ELECTRIC REFUNDING/REVENUE BONDS

On September 20, 2005, the Electric Utility issued $115,725 of Electric Refunding/Revenue bonds, Series A and B, to finance capital improvement programs and refund certain existing Electric revenue bonds. $60,000 of Electric revenue bonds is being used to finance the costs of certain improvements to the City's Electric System as part of the Capital Improvement Program. The remaining portion was used to refund $30,915 of the outstanding 1998 and $9,260 of the outstanding 2001 Electric revenue bond issues. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3,431. This difference is being charged to operations using a proportional method. The City completed the current refunding to reduce net aggregate debt service payments over the next 17 years by $3,111 and to obtain an economic gain (difference between present value of the old and new debt service payments) of $2,612. Series A bonds of $57,850 and Series B bonds of $57,875 are variable Auction Rate Securities term bonds, maturing on October 1, 2007 through October 1, 2035 with principal payments ranging from $525 to $10,375. Assuming a variable rate of 3.2%, the all-in true interest cost for this issue is 3.56%.

INTEREST RATE SWAPS ON REVENUE BONDS

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in September 2005, the City entered into interest rate swap agreements in connection with its $115,725 2005 Electric Refunding/Revenue Bonds (Series A and B). Also in September 2005, the City entered into the interest rate swap agreement for the $82,500 2004 Electric Revenue Bonds (Series B). The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.11% for the 2004 Electric Revenue Bonds (Series B) and 3.20% for the other respective Revenue Bonds.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2015 and 2007, respectively, the notional value of the 2004 and 2005 swaps and the principal amount of the associated debt decline by $1,250 to $7,000 and $600 to $10,375, respectively, until the debt is completely retired in fiscal years 2030 and 2036 respectively. The bonds' variable rate coupons are established on a weekly basis through the results of an auction process administered through an auction agent, termed Auction Rate Securities ("ARS").

The bonds and the related swap agreements for the 2004 Electric Revenue Bonds mature on October 1, 2029 and the 2005 Electric Refunding/Revenue Bonds mature on October 1, 2035. As of June 30, 2007, rates were as follows:

Interest Rate Swap:	Terms	2005 Electric Refunding/ Revenue Bonds Series A Rates	2005 Electric Refunding/ Revenue Bonds Series B Rates	2004 Electric Revenue Bonds Series B Rates
Fixed payment to counterparty	Fixed	3.20100%	3.20400%	3.11100%
Variable payment from counterparty	62.68 LIBOR + 12bps	(3.35345%)	(3.37995%)	(3.22906%)
Net interest rate swap payments		(0.15245%)	(0.17595%)	(0.11806%)
Variable-rate bond coupon payments	ARS	3.22244%	3.25034%	3.10258%
Synthetic interest on bonds		3.06999%	3.07439%	2.98452%

NOTE 4. LONG-TERM OBLIGATIONS (continued)

Fair value: As of June 30, 2007, in connection with all swap agreements, the transactions had a total positive fair value of $11,023. Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2007, the City was exposed to credit risk in the amount of $11,023 because the swap had a positive fair value. The swap counterparties, Bear Stearns and Merrill Lynch, were rated A+ and AA-, respectively by Standard & Poor's. To mitigate the potential for credit risk, if either counterparty's credit quality falls below A-, the fair value of the swap will be collateralized by the counterparty with U.S. Government securities. Collateral would be posted with a third-party custodian.

Basis risk: As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the auction-rate converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the City if either counterparty's credit quality falls below "BBB-" as issued by Standard & Poor's. The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt: As of June 30, 2007, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds			
	Principal	Interest	Interest Rate Swaps, Net	Total
2008	$ 525	$ 6,269	$ (286)	$ 6,508
2009	550	6,251	(285)	6,516
2010	575	6,232	(284)	6,523
2011	575	6,213	(283)	6,505
2012	2,650	6,128	(278)	8,500
2013-2017	34,175	28,214	(1,275)	61,114
2018-2022	38,375	21,793	(989)	59,179
2023-2027	38,575	15,405	(718)	53,262
2028-2032	42,275	9,164	(457)	50,982
2033-2036	39,350	1,967	(100)	41,217
Total	$ 197,625	$ 107,636	$ (4,955)	$ 300,306

NOTE 5. RESTRICTED EQUITY

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's electric revenue and refunding bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2004 Revenue bonds and 2005 Refunding/Revenue bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 1998 revenue bonds are not required due to the purchase of surety bonds to cover the reserve requirements.

NOTE 6. JOINTLY-GOVERNED ORGANIZATIONS

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

On November 1, 1980, the City of Riverside joined with the Imperial Irrigation District and the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale and Pasadena to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of SCPPA is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. SCPPA is governed by a Board of Directors, which consists of one representative for each of the members. During the 2006-07 and 2005-06 fiscal years, the Electric Utility paid approximately $16,854 and $15,211, respectively, to SCPPA under various take-or-pay contracts that are described in greater detail in Note 8. These payments are reflected as a component of production and purchased power or transmission expense in the financial statements.

POWER AGENCY OF CALIFORNIA

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

NOTE 7. JOINTLY-OWNED UTILITY PROJECT

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

SCE, as operating agent, has declared an "operating impairment" due to deterioration of the steam generators ("SGs"), which would likely result in permanent shutdown of the plant in the 2009-2010 timeframe. The estimated costs to replace the SGs is $680,000, of which approximately $12,200 would represent the City's share. Replacement of the SGs is expected to enable plant operations through at least 2022, and perhaps beyond if Nuclear Regulatory Commission approval is obtained. Although the Riverside City Council has approved participation in the replacement of the SGs, Anaheim has opted not to participate. During 2006, the FERC, Nuclear Regulatory Commission and the California Public Utility Commission (CPUC) approved the transfer of Anaheim's shares to SCE, and as a result, SCE's ownership was increased to 78.21 percent in units 2 and 3 of SONGS.

NOTE 7. JOINT-OWNED UTILITY PROJECT (continued)

The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively.

There are no separate financial statements for the jointly-owned utility plant since each participant's interests in the utility plant and operating expenses are included in their respective financial statements. The Electric Utility's 1.79 percent share of the capitalized construction costs for SONGS totaled $138,575 and $136,039 for fiscal years ended June 30, 2007 and 2006, respectively. During fiscal year ended June 30, 2006, the City Council approved participation in SONGS through the extended operations date. As a result, all acquisitions are now depreciated through 2022, to include the construction recapture extension period. The accumulated depreciation amounted to $108,709 and $103,082 for the fiscal years ended June 30, 2007 and 2006, respectively. The Electric Utility made provisions for future decommissioning costs of $1,581 for both fiscal years plus earnings on the Decommissioning Trust Fund of $1,946 and $1,468 for fiscal years June 30, 2007 and June 30, 2006, respectively (see Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

NOTE 8. COMMITMENTS

TAKE-OR-PAY CONTRACTS

The Electric Utility has entered into a power purchase contract with Intermountain Power Agency (IPA) for the delivery of electric power. The Electric Utility's share of IPA power is equal to 7.6 percent, or approximately 137.1 MW, of the net generation output of IPA's 1,800 MW coal-fueled generating station located in central Utah. The contract expires in 2027 and the debt fully matures in 2024.

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

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency (see Note 6). SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, it has entered into Power Purchase or Transmission Service Agreements, entitling the Electric Utility to the power output or transmission service, as applicable, and the Electric Utility will be obligated for its proportionate share of the project costs.

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

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195.0 MW	2023	2027
Hoover Dam Uprating	31.9 percent	30.0 MW	2017	2017
Mead-Phoenix Transmission	4.0 percent	12.0 MW	2020	2030
Mead-Adelanto Transmission	13.5 percent	118.0 MW	2020	2030

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

NOTE 8. COMMITMENTS (continued)

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.0 percent to 6.38 percent. The schedule below details the amount of principal and interest that is due and payable by the Electric Utility as part of the take-or-pay contract for each project in the fiscal year indicated.

	IPA	SCPPA					TOTAL
Debt Service Payments (in thousands) Year Ending June 30,	**Intermountain Power Project**	**Palo Verde Nuclear Generating Station**	**Southern Transmission System**	**Hoover Dam Upgrading**	**Mead-Phoenix Transmission**	**Mead-Adelanto Transmission**	**All Projects**
2008	$ 20,886	$ 849	$ 7,041	$ 704	$ 260	$ 2,819	$ 32,559
2009	21,852	846	6,923	704	259	2,814	33,398
2010	22,626	709	6,677	703	259	2,818	33,792
2011	26,440	706	6,711	702	289	2,814	37,662
2012	24,061	704	6,775	701	287	2,797	35,325
2013-2017	105,538	3,481	38,555	3,476	1,303	13,925	166,278
2018-2022	93,333	-	39,717	691	992	11,208	145,941
2023-2027	11,341	-	12,854	-	-	-	24,195
Total	$ 326,077	$ 7,295	$ 125,253	$ 7,681	$ 3,649	$ 39,195	$ 509,150

In addition to debt service, Riverside's entitlements require the payment of fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for the year ended June 30, 2007 and 2006, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Mead-Adelanto Transmission	Mead-Phoenix Transmission	Hoover Dam Uprating	TOTAL
2007	$ 24,227	$ 2,122	$ 1,948	$ 249	$ 49	$ 96	$ 28,691
2006	$ 24,121	$ 2,122	$ 1,845	$ 220	$ 43	$ 96	$ 28,447

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

POWER PURCHASE AGREEMENTS

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

NOTE 8. COMMITMENTS (continued)

MINIMUM OBLIGATIONS 2007-2008 (IN THOUSANDS):

Supplier	Capacity	Energy	Total
Deseret	$ 3,463	$ 1,824	$ 5,287
CDWR III	26	-	26
CDWR IV	345	-	345
BPA (two agreements)	861	-	861
Total	$ 4,695	$ 1,824	$ 6,519

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret $25,000 from Electric fund reserves, which is reflected on the Balance Sheets as Deferred purchased power. On July 1, 2002, the Electric Utility began to amortize the $25,000, and will continue to amortize the remaining balance over the term of the agreement using the straight-line method.

As of June 30, 2007 and 2006, Deferred purchased power was $8,352 and $11,692, respectively, and the Utility had recorded amortization of $3,340 in both fiscal years.

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

In early 2005, CDWR and the City disagreed that Power Sale Agreements III and IV were still in effect as of December 31, 2004. While CDWR believed the agreements were terminated, the City contended that CDWR did not provide proper notification under the terms of the Power Sale Agreements. During May and June, CDWR continued to provide power under the terms of the original contracts, pending staff's resolution of the dispute. On September 13, 2005, in order to maintain the City's long-term relationship with CDWR and to avoid costly litigation, the City Council approved the contract amendments, effectively terminating the contracts in September 2007 and reducing the final two years of the contracts to a period of May through September.

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

NUCLEAR INSURANCE

The Price-Anderson Act ("the Act") requires that all utilities with nuclear generating facilities share in the payment for claims resulting from a nuclear incident. The Act limits liability from third-party claims to approximately $10.8 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to $101 million per reactor for each licensee for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to $15 million per reactor, per year, per event to be indexed for inflation every five years. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of $4,583, limited to payments of $681 per incident, per year.

NOTE 8. COMMITMENTS (continued)

RENEWABLE PORTFOLIO STANDARD ("RPS")

On June 6, 2003 and July 8, 2003, the Public Utilities Board and the City Council respectively, adopted a RPS to increase procurement of renewable resources to reach a target of 20% of the Utility's energy by 2015. On March 16, 2007, the Public Utilities Board approved a new RPS, increasing the targets to 20% and 25% by 2010 and 2015, respectively. On May 4, 2007, the Public Utilities added an additional target of 33% by 2020.

The contracts in the following table were executed as part of compliance with this standard. The Utility also has an agreement with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided 9% of retail energy requirements of total power produced or purchased.

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

Supplier	Type	Maximum Contract	Contract Expiration	Estimated Annual Cost For 2008
Milliken Genco	Landfill Gas	2.3 MW	12/31/2007	$ 416
Mid Valley Genco	Landfill Gas	2.3 MW	12/31/2007	475
Riverside County (Badlands Landfill)	Landfill Gas	1.2 MW	12/31/2008	256
Salton Sea Power LLC	Geothermal	20.0 MW	5/31/2020	9,645
Wintec	Wind	8.0 MW	11/10/2021	176
Total		33.8 MW		$ 10,968

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

On August 23, 2005, the City Council approved an amendment to the Power Purchase Agreement between Salton Sea and the City. The agreement increases the amount of renewable energy available to the City from the current 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the City is only obligated for purchases of energy delivered to the City.

On November 10, 2006, the City of Riverside entered into a second Renewable Power Purchase Agreement with Wintec Energy, Ltd for wind generation capacity of up to 8 MW. The contract term is for 15 years, with capacity available upon completion of Wintec's Facility II Wind Turbine Project.

CONSTRUCTION COMMITMENTS

As of June 30, 2007, the Electric Utility had major commitments of approximately $15,508, with respect to unfinished capital projects, of which $11,264 is expected to be funded by bonds, $1,274 funded by rates and $2,970 funded by others.

FORWARD PURCHASE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for energy and/or capacity products on a short term basis. As of June 30, 2007, the Electric Utility has summer peaking commitments for fiscal year 2008, of approximately $4,026, with a market value of $4,029.

NOTE 9. LITIGATION

The City continues to participate in key FERC dockets impacting the City's Electric Utility, such as the California Independent System Operator's (ISO) Market Redesign and Technology Upgrade (MRTU) and the 2000-2001 Western Markets Energy Crisis Refund dockets.

On January 1, 2003, the City became a Participating Transmission Owner (PTO) with the ISO, entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based on the City's Transmission Revenue Requirements (TRR) as approved by the FERC. The California Investor Owned Utilities (IOUs), the CDWR, and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted, and the FERC accepted for filing, a settlement agreement that disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of its transmission facilities committed to the ISO's control. After numerous FERC hearings, briefings, and decisions on this TRR issue, FERC issued a final order in favor of the City in late 2006. CDWR appealed this order to the U.S. Court of Appeals for the D.C. Circuit, but CDWR subsequently withdrew this petition, and the court issued an order dismissing the case on July 9, 2007. As a result of this dismissal, approximately $49 million collected from the ISO through June 30, 2007 but previously held in reserves, has now been released to the Electric Utility's unrestricted operating cash reserve account, and is available for current operations or other strategic purposes upon approval of the Public Utilities Board and the City Council.

The City is owed approximately $300 by the ISO and $1,000 by the California Power Exchange (PX), primarily due to Pacific Gas & Electric's (PG&E) defaulting on its payments to the ISO and PX in early 2001. These amounts were fully reserved with an allowance for potentially uncollectible receivables in fiscal year 2001, and any amounts subsequently collected will be included in earnings in the period collected. After PG&E's default on its payments in 2001, PG&E and the PX filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Courts in San Francisco, California, and Los Angeles, California, respectively. PG&E was the largest purchaser of electricity from the ISO and the PX, and therefore was the largest creditor of the ISO and PX. PG&E's various creditors' classes and the Bankruptcy Court approved a Settlement Plan under which PG&E paid the PX and ISO 100% of its debts to creditors in the same class as the City. Payments to the City of the City's share of these PG&E funds by the PX and ISO are contingent upon the FERC's issuance of orders in various dockets that will determine the methodology of the ISO's and PX's calculations of refunds and charge backs to its participants, including the City.

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

Key Historical Operating Data

POWER SUPPLY (MWH)	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Nuclear					
San Onofre	310,400	275,100	282,700	316,600	321,800
Palo Verde	90,000	72,600	87,500	86,400	97,200
Coal					
Intermountain Power	1,130,000	1,091,000	1,081,600	1,091,700	1,029,400
Deseret	400,000	396,000	432,200	404,300	404,600
Hoover (Hydro)	34,500	35,100	28,100	35,600	36,200
Gas					
Springs	1,600	1,600	1,700	1,900	9,800
RERC	62,000	9,300	-	-	-
Renewable Resources	245,000	264,000	270,200	237,600	224,700
Other purchases	462,000	517,300	440,000	437,200	270,900
Exchanges In	107,400	89,900	83,300	95,100	89,300
Exchanges Out	(191,900)	(174,600)	(79,100)	(171,700)	(137,700)
Total:	2,651,000	2,577,300	2,628,200	2,534,700	2,346,200
System peak (MW)	586.3	550.6	519.1	517.2	474.2

ELECTRIC USE	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Number of meters as of year end					
Residential	94,232	93,607	92,914	90,583	89,149
Commercial	10,063	10,038	10,060	9,683	9,356
Industrial	837	496	344	351	374
Other	94	153	145	149	139
Total:	105,226	104,294	103,463	100,766	99,018
Millions of kilowatt-hours sales					
Residential	748	697	675	707	618
Commercial	456	474	530	522	451
Industrial	924	810	707	687	658
Wholesale sales	295	321	470	354	378
Other	39	57	50	52	49
Total:	2,462	2,359	2,432	2,322	2,154

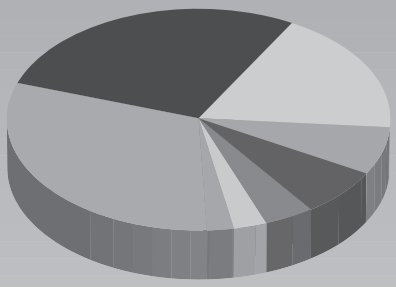
ELECTRIC FACTS	2006/2007	2005/2006	2004/2005	2003/2004	2002/2003
Average annual kWh per residential customer	7,959	7,515	7,424	7,884	6,970
Average price (cents/kWh) per residential customer	12.62	12.22	11.81	11.44	10.99
Debt service coverage ratio	3.09	2.67	3.68	3.38	2.91
Operating income as a percent of operating revenues	22.0%	18.2%	25.4%	20.3%	14.4%
Employees[1]	367	338	307	306	292

[1] Approved Positions

Key Historical Operating Data

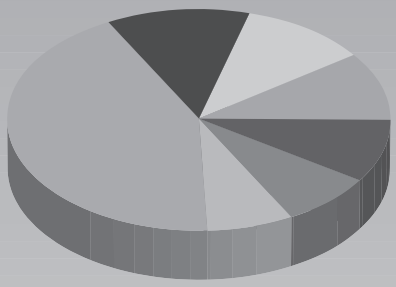
2006/2007 ELECTRIC REVENUE AND RESOURCES

Source of Revenue



- Residential Sales (31¢)
- Industrial Sales (28¢)
- Commercial Sales (18¢)
- Transmission Revenue (7¢)
- Other Revenue (7¢)
- Investment Income (4¢)
- Wholesale Sales (3¢)
- Other Sales (2¢)

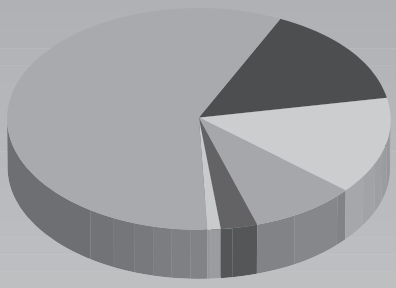
Distribution of Revenue



- Production (43¢)
- Distribution (12¢)
- Debt Service (11¢)
- Transmission (10¢)
- Transfers to the City's General Fund* (9¢)
- Additions & Replacements to the System (8¢)
- Additional Reserves (7¢)

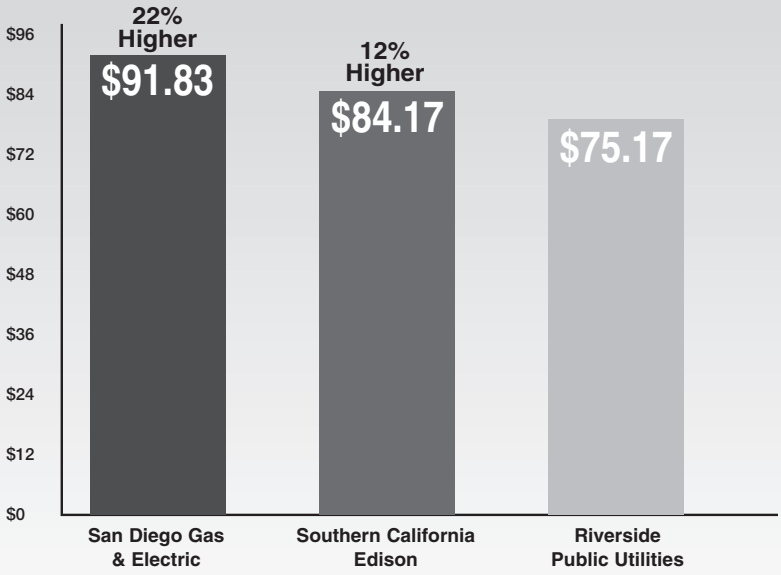
*Based on transfer of 9.0% of fiscal year 2005/2006 revenues (excludes wholesale sales, interest and other non-operating income).

Energy Resources



- Coal (58%)
- Nuclear (15%)
- Other Purchases (14%)
- Renewables (9%)
- Gas (3%)
- Hydropower (1%)

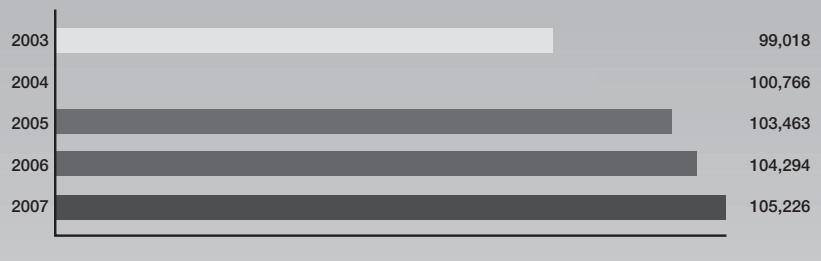
RESIDENTIAL ELECTRIC RATE COMPARISON 600 KWH PER MONTH (AS OF JULY 1, 2007)



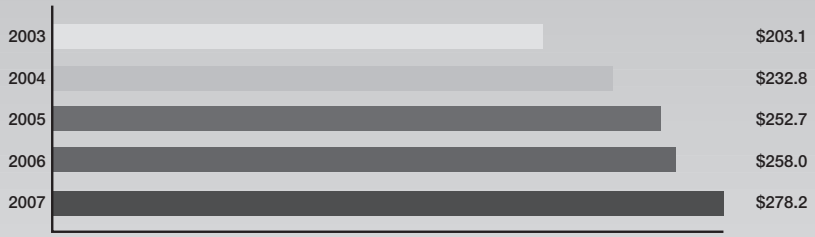
Key Historical Operating Data

General Fund Transfer (in millions)

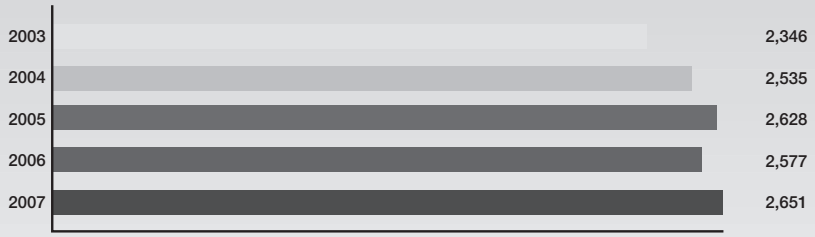
Number of Meters at Year End



Total Operating Revenue (in millions)

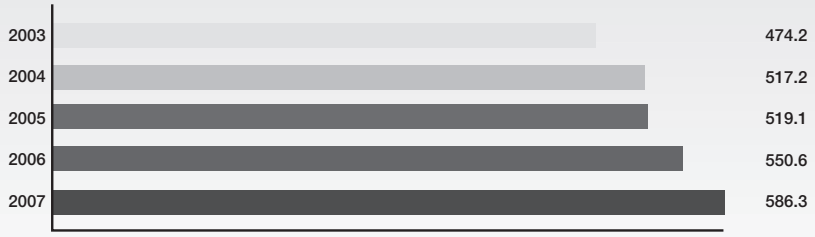


Production (in million kilowatt-hours)[1]



[1]Energy shown before losses net of exchanges

Peak Day Demand (in megawatts)



ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	291,398
Service Area Size (square miles)	81.0
System Data:	
Transmission lines (circuit miles)	86.3
Distribution lines (circuit miles)	1,232
Number of substations	14
2006-07 Peak Day (megawatts)	586
Highest single hourly use: 7/21/2006, 4pm, 108 degrees	
Historical peak (megawatts)	586
Highest single hourly use: 7/21/2006, 4pm, 108 degrees	

BOND RATINGS

FITCH RATINGS (August '05)	AA-
STANDARD & POOR'S	A+
Debt Derivative Profile Score	2

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

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

Definitions

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

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

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

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

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

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

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

"**Bond Register**" means the Bond Register as defined in the Resolution.

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

"**BMA**" means the Bond Market Association and its successors and assigns.

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

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

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

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

"**Charter**" means the Charter of the City, as it may be amended from time to time.

"**City**" means the City of Riverside, California.

"**City Clerk**" means the City Clerk of the City.

"**City Council**" or "**Council**" means the City Council of the City.

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

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

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

"**Designated Investments**" means, with respect to the Bonds of a Series, any investments designated as Designated Investments in the Supplemental Resolution authorizing the issuance of the Bonds of that Series. With respect to the 2008 Bonds, "Designated Investments" means the following:

(a) investment agreements, guaranteed investment contracts, funding agreements, or any other form of obligation or corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed in full by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by two or more Rating Agencies;

(b) repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (i) the over-collateralization is at one hundred three percent or one hundred four percent (103% or 104%), computed weekly, consisting of securities of the types outlined in the California Government Code Section 53601; (ii) a third party custodian, the Fiscal Agent for the 2008 Bonds or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent for the 2005 Bonds shall have perfected a first priority security interest in such obligations; and (iv) failure to maintain the requisite collateral percentage will require the Fiscal Agent for the 2008 Bonds to liquidate the collateral;

(c) forward delivery or forward purchase agreements with underlying securities of the types outlined in the California Government Code 53601;

(d) the Local Agency Investment Fund ("LAIF") established pursuant to Section 16429.1 of the Government Code of the State of California; and

(e) any other investments which are rated "AA" or better by the Rating Agencies which the City deems to be prudent investments and are not prohibited by law.

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

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

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

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

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

"**Fiscal Agent**" means with respect to any Series of Bonds, the fiscal agent appointed pursuant to the Supplemental Resolution authorizing the issuance of such Series and which may be the Treasurer, and any successor appointed in accordance with the Resolution.

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

"**Fitch**" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized rating agency selected by the City and not objected to by the Fiscal Agent.

"**Gross Operating Revenues**" means (i) all revenues from rates, fees and charges for providing electric service to persons and real property and all other fees, rents and charges and other revenues derived by the City from the ownership, operation, use or service of the Electric System, including contributions in aid of construction, and (ii) all Subordinate Swap Receipts.

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

"**Information Services**" means Financial Information, Incorporated's "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250-77 Center Drive, Charlotte, North Carolina 28217, Attention: Called Bond Department; Standard & Poor's Rating Services, 55 Water Street, New York, New York 10041; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the City may designate in a Request of the City delivered to any Fiscal Agent.

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

"**Law**" means collectively the City Charter, Ordinance No. 5001 of the City Council, as it may be amended from time to time, and the Resolution.

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

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

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

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

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

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

(e) if the Bonds or Parity Debt are Paired Obligations, the interest rate on such Bonds or Parity Debt shall be the collective fixed interest rate to be paid by the City with respect to Paired Obligations;

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

(g) interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Bonds and such Subordinate Swap, including but not limited to the effects that (i) such Bonds would, but for such Subordinate Swap, be treated as Variable Rate Indebtedness instead shall be treated as Bonds bearing interest at a fixed interest rate, and (ii) such Bonds would, but for such Subordinate Swap, be treated as Bonds bearing interest at a fixed interest rate instead shall be treated as Variable Rate Indebtedness; and accordingly, the amount of interest deemed to be payable on any Bonds with respect to which a Subordinate Swap is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds plus the Subordinate Swap Payments minus the Subordinate Swap Receipts, and for the purpose of calculating as nearly as practicable the Subordinate Swap Payments and the Subordinate Swap Receipts under such Bonds, the following assumptions shall be made:

(1) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a net variable interest rate with respect to such Bonds and Subordinate Swap by the City, the interest rate on such Bonds for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Subordinate Swap is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Bonds, minus (ii) the fixed rate paid by the Subordinate Swap Provider to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Subordinate Swap Provider with respect to such Subordinate Swap (but only during the period that such interest rate cap is in effect) and (B) the applicable variable interest rate calculated in accordance with paragraph (b) or (c) above, as applicable; and

(2) if a Subordinate Swap has been entered into by the City with respect to Bonds resulting in the payment of a fixed interest rate with respect to such Bonds and Subordinate Swap by the City, the interest on such Bonds shall be included in the calculation of payments (but only during the period the Subordinate Swap is in effect) by including for each Fiscal Year (or other designated 12 month period) an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Subordinate Swap.

Notwithstanding any other paragraph of this definition of Maximum Annual Debt Service, except as set forth in subsection (g) above, no amounts payable under any Subordinate Swap (including Termination Payments) shall be included in the calculation of Maximum Annual Debt Service.

"**Moody's**" means Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

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

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

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

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

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

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

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

"**Opinion of Bond Counsel**" means a written opinion of Bond Counsel.

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

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

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

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

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

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

"**Rating Agencies**" means either or both of Fitch and Standard & Poor's, and/or such other securities rating agencies providing a rating with respect to a Series of Bonds.

"**Rating Category**" means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating

category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

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

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

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

"**Renewal and Replacement Account**" means the Electric Revenue Bonds, Renewal and Replacement Account established pursuant to the Resolution in the Electric Revenue Fund.

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

"**Securities Depository**" means the Securities Depository acting as such under the Supplemental Resolution authorizing the issuance of the Bonds of that Series.

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

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

"**Standard & Poor's**" means Standard & Poor's Ratings Services, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's," unless otherwise provided in a Supplemental Resolution for a Series of Bonds, shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and not objected to by the Fiscal Agent.

"**State**" means the State of California.

"**Subordinate Bonds**" means any indebtedness or other obligation of the City (other than Subordinate Swaps and Subordinate Swap Policy Agreements), designated by the City on the date of issuance or incurrence as "Subordinate Bonds," in each case having an equal lien and charge upon the Net Operating Revenues with the Subordinate Swaps and the Subordinate Swap Policy Agreements and therefore payable on a parity with the Subordinate Swaps and the Subordinate Swap Policy Agreements (whether or not any Subordinate Swaps or Subordinate Swap Policy Agreements have been executed and delivered).

"**Subordinate Obligations**" means the Subordinate Swaps, the Subordinate Swap Policy Agreements and the Subordinate Bonds.

"**Subordinate Payments**" means all amounts required to be paid when due by the City under the Subordinate Obligations.

"**Subordinate Providers**" means the Subordinate Swap Providers, the Subordinate Swap Policy Providers and the owners of the Subordinate Bonds.

"**Subordinate Swap**" means a written agreement for the purpose of managing or reducing the City's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Subordinate Swap Provider to the extent authorized under the Law in connection with, or incidental to, the issuance of any Bonds (without regard to when issued), that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device; provided, however, that the written agreement with respect to each Subordinate Swap shall provide that payments by the City under the Resolution shall be secured by the subordinate lien on Net Operating Revenues created under the Resolution with respect to Subordinate Swaps (and other Subordinate Obligations).

"**Subordinate Swap Payments**" means (i) the amounts periodically required to be paid when due by the City to all Subordinate Swap Providers under all Subordinate Swaps and (ii) Termination Payments.

"**Subordinate Swap Policy**" means any insurance policy or similar agreement insuring payment of the City's obligations under a particular Subordinate Swap.

"**Subordinate Swap Policy Agreement**" means any agreement between the City and a Subordinate Swap Policy Provider obligating the City to reimburse such Subordinate Swap Policy Provider for amounts paid under the related Subordinate Swap Policy.

"**Subordinate Swap Policy Provider**" means, with respect to any Subordinate Swap Policy, the issuer or provider of a Subordinate Swap Policy.

"**Subordinate Swap Provider**" means, with respect to each Subordinate Swap, the entity (other than the City and, if applicable, the Fiscal Agent) that is a party thereto, and its permitted successors and assigns, whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to "A2" and "A" from at least two nationally recognized credit rating agencies, or whose payment obligations under the Subordinate Swap are enhanced by a credit support provider or other similar entity whose senior long-term debt obligations, other senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is or are rated at least equivalent to "A2" and "A" from at least two nationally recognized credit rating agencies and whose credit enhancement of the Subordinate Swap Provider's obligations under the Subordinate Swap are pursuant to a guaranty or other form of credit enhancement (including, but not limited to, contingent swap counterparty arrangements, transfer/novation arrangements or option arrangements acceptable to the Treasurer or any duly authorized designee of the Treasurer designated by the Treasurer in writing to act on behalf of such officer for such purpose (such acceptance to be evidenced by the execution and delivery of any such Subordinate Swap)).

"**Subordinate Swap Receipts**" means the amounts periodically required to be paid by all Subordinate Swap Providers to the City under all Subordinate Swaps.

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

"**Surplus Account**" means the Electric Revenue Bonds, Surplus Account established pursuant to the Resolution in the Electric Revenue Fund.

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

"**Termination Payments**" means any payments due and payable by the City to a Subordinate Swap Provider in connection with the termination of a Subordinate Swap.

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

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

Revenues; Funds and Accounts

Pledge of Net Operating Revenues. The Bonds of each Series are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable, as to the principal thereof, interest thereon, and any premiums upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution and under the Supplemental Resolution creating that Series. The City pledges, places a charge upon and assigns all Net Operating Revenues to secure the payment of the principal of, premium, if any, and interest on the Bonds and Parity Debt in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, and the Net Operating Revenues constitute a trust fund for the security and payment of the interest and any premium on and principal of the Bonds and Parity Debt. There are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms all amounts (including proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

The Subordinate Obligations are special limited obligations of the City and are secured by a pledge of and shall be a charge upon and shall be payable solely from and secured by a lien upon the Net Operating Revenues; provided, however, that such pledge and lien shall be junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt. The City pledges, places a charge upon and assigns the Net Operating Revenues to secure the payment of Subordinate Obligations in accordance with their respective terms without priority or distinction of one over the other, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (including that the pledge and lien on the Net Operating Revenues are junior and subordinate to the pledge and lien created for the benefit, security and protection of the Owners of the Bonds and the owners of the Parity Debt), and the Net Operating Revenues constitute a trust fund for the security and payment of the Subordinate Obligations (on a basis junior and subordinate to the pledge and lien created for the benefit of

the Owners of the Bonds and the owners of the Parity Debt). There are pledged to secure the payment of the Subordinate Obligations in accordance with their respective terms amounts (excluding proceeds of the Bonds) held by the Treasurer in the Bond Service Account, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

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

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

(1) Electric Revenue Bonds, Bond Service Account (the "Bond Service Account"), in which there are established the following sub-accounts:

(a) Electric Revenue Bonds, Principal Account (the "Principal Account"); and

(b) Electric Revenue Bonds, Interest Account (the "Interest Account");

(2) Electric Revenue Bonds, Renewal and Replacement Account (the "Renewal and Replacement Account"); and

(3) Electric Revenue Bonds, Surplus Account (the "Surplus Account").

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

Allocation of Revenues. All Gross Operating Revenues shall be deposited with the Treasurer and placed in the Electric Revenue Fund. So long as any Bonds are Outstanding, the Treasurer shall transfer and apply Gross Operating Revenues from and within the Electric Revenue Fund to the payment of Operating and Maintenance Expenses, and thereafter to the Bond Service Account, any debt service account created or established to provide for the payment of Parity Debt, any reserve account and excess earnings or rebate account established under any Supplemental Resolution or for any Parity Debt, the Renewal and Replacement Account and the Surplus Account and shall set aside such moneys in such funds in the following amounts, in the following order of priority, the requirements of each such fund or account (including the making up of any deficiencies in any such fund resulting from lack of Gross Operating Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied,

except as otherwise provided in clause (d) of paragraph 2 below, before any deposit is made to any fund subsequent in priority.

(1) *Operating and Maintenance Expenses*. As soon as practicable in each month, the Treasurer shall provide for the payment of the Operating and Maintenance Expenses for that month, prior to the payment or provision for payment of (i) the interest on and the principal of the Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.

(2) *Interest Account*. The Treasurer shall set aside in the Interest Account as soon as practicable in each month an amount equal to (a) with respect to the Outstanding Current Interest Bonds of each Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations), such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment for all such Outstanding Current Interest Bonds of such Series (excluding any interest for which there are moneys deposited in the Interest Account from the proceeds of such Series of Bonds or other source and reserved as capitalized interest to pay such interest until the next interest payment date), until the requisite amount of interest becoming due on the next interest payment date on all such Outstanding Current Interest Bonds of such Series (except for Bonds constituting Variable Rate Indebtedness or Paired Obligations) is on deposit in such fund, (b) with respect to Outstanding Paired Obligations, such amount as shall be sufficient on a monthly pro rata basis to pay the aggregate of the collective fixed interest obligation of the City for such Paired Obligations coming due and payable on the next interest payment date for such Paired Obligations, (c) 110% of the aggregate amount of interest, estimated by the Treasurer in his or her reasonable judgment, to accrue during that month on the Outstanding Variable Rate Indebtedness; provided, however, that the amount of such deposit into the Interest Account for any month may be reduced (but only to the extent the amount payable by the City was or will be reduced) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness exceeded the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and further provided that the amount of such deposit into the Interest Account for any month shall be increased (but only to the extent the amount payable by the City was or will be increased) by the amount by which the deposit in the prior month for interest estimated to accrue on Outstanding Variable Rate Indebtedness was less than the actual amount of interest accrued during that month on said Outstanding Variable Rate Indebtedness and (d) <u>only after</u> all deposits have been made for such month in the Principal Account and the Bond Reserve Accounts as provided in paragraphs 3 and 4 below, respectively, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of such Subordinate Payments is not then known, the amount, estimated by the Treasurer in his or her reasonable judgment, to become due and payable under all Subordinate Obligations during that month). No deposit need be made into the Interest Account if the amount contained therein is at least equal to (i) the interest to become due and payable on the interest payment dates falling within the next six months upon all of the Bonds issued under the Resolution and then Outstanding (but excluding any moneys on deposit in the Interest Account from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates) and (ii) the payments becoming due and payable under all Subordinate Obligations during that month as provided in clause (d) of this paragraph 2. If the City shall issue or incur any Parity Debt, the payments required to be placed in any debt service fund to pay interest on such Parity Debt shall rank and be made pari passu with the payments required to be placed in the Interest Account with respect to the Bonds.

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

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

(5) *Interest Account – Supplemental Deposit as Provided in Paragraph 2 Above*. The Treasurer shall, without duplication, deposit into the Interest Account as soon as practicable in each month, the amount provided for in clause (d) of paragraph 2 above.

(6) *Excess Earnings and Certain Other Accounts*. The Treasurer shall deposit in any excess earnings account, rebate account or yield reduction sinking fund or account (established for the purpose of reducing the yield on certain proceeds of Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under Section 148 of the Internal Revenue Code of 1986 and applicable regulations of the United States Treasury) established pursuant to a Supplemental Resolution for a Series of Bonds or Parity Debt such amounts at such times as shall be required pursuant to the Supplemental Resolution or other document creating such account.

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

(8) *Surplus Account*. On the first day of each calendar month, any amounts remaining in the Electric Revenue Fund after the foregoing transfers described in paragraphs 1 through 7 above, except as otherwise provided in a Supplemental Resolution, shall be transferred to the Surplus Account and may be: (i) invested in any Authorized Investments, (ii) used for the redemption of any Outstanding Bonds which are subject to call and redemption prior to maturity or for the purchase from time to time on the open market of any of the Outstanding Bonds whether or not subject to call (irrespective of the maturity or number of such Bonds) at such prices and in such manner, either at public or private sale, or otherwise as the City in its discretion may determine, but if the Bonds are subject to call and redemption prior to maturity, the purchase price (including brokerage or other charges, but excluding accrued interest) shall not exceed the redemption price on the next interest payment date of such Bonds so purchased, or (iii) used in any other lawful manner.

Application of Funds and Accounts.

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

(B) *Principal Account*.

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

(2) Notwithstanding paragraph 1 above, the Treasurer may apply moneys in the Principal Account to the purchase of Bonds maturing or subject to mandatory sinking fund redemption (i) within the next six months in the case of Bonds subject to semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments or (ii) within the next twelve months in the case of Bonds subject to annual maturity dates or annual Mandatory Sinking Account Payments (but only to the extent of amounts deposited in the Principal Account in respect of such

Bonds), at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) shall not exceed the principal amount or Accreted Value thereof. All Bonds purchased pursuant to this subsection shall be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction shall be delivered to the Treasurer by the Fiscal Agent for such Series.

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

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

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

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

The Treasurer and each Fiscal Agent shall keep proper books of record and accounts containing complete and correct entries of all transactions made by each, respectively, relating to the receipt, investment, disbursement, allocation and application of the moneys related to the Bonds, including moneys derived from, pledged to, or to be used to make payments on the Bonds. Such records shall

specify the account to which each investment (or portion thereof) held by the Treasurer and each Fiscal Agent is to be allocated and shall set forth, in the case of each Authorized Investment, (a) its purchase price, (b) identifying information, including par amount, coupon rate, and payment dates, (c) the amount received at maturity or its sale price, as the case may be, including accrued interest, (d) the amounts and dates of any payments made with respect thereto, and (e) the dates of acquisition and disposition or maturity.

Covenants

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

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

The City covenants that it will duly and punctually pay or cause to be paid all amounts when due under the Subordinate Obligations, on the dates, at the place or places and in the manner mentioned in the Resolution in accordance with the Resolution, and that the payments into the Bond Service Account will be made, all in strict conformity with the terms of the Subordinate Obligations and of the Resolution and any Supplemental Resolutions, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Resolution and any Supplemental Resolutions, and that time of such payment and performance is of the essence of the City's contract with the Subordinate Providers.

Discharge Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds and the subordinate priority and security of the Subordinate Obligations, the City shall pay from the Electric Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Electric System which, if unpaid, may become a lien or charge upon the revenues prior or superior to the lien of the Bonds or the lien of the Subordinate Obligations and impair the security of the Bonds or the Subordinate Obligations. The City shall also pay from the Electric Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Electric System or upon any part thereof or upon any of the revenues therefrom.

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

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

Against Sale; Eminent Domain. The City covenants that the Electric System shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Electric Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and the premiums, if any, due upon the call and redemption

thereof, of the Bonds and any Parity Debt and of any amounts due with respect to the Subordinate Obligations, and also to provide for such payments into any reserve account as are required under the terms of the Resolution or any Supplemental Resolutions or any Parity Debt documents. The Net Operating Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used, nor shall any charge be placed thereon, except as authorized by the terms of the Resolution or any Supplemental Resolutions. The City further covenants that it will not enter into any agreement which impairs the operation of the Electric System or any part of it necessary to secure adequate Net Operating Revenues to pay the principal of and interest on the Bonds or any Parity Debt and to pay all amounts due under the Subordinate Obligations or which otherwise would impair the rights of the Owners or the Subordinate Providers with respect to the Net Operating Revenues or the operation of the Electric System. If any substantial part of the Electric System is sold, the payment therefor shall, at the option of the City Council, either be used for the acquisition, construction and financing of additions to and extension and improvements of the Electric System or shall be placed in the Bond Service Account or the Redemption Account and shall be used to pay or call and redeem Outstanding Bonds in the manner provided in the Resolution or any Supplemental Resolutions.

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

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

The City shall also (by self-insuring or by maintenance with responsible insurers, to the extent available from responsible insurers at reasonable rates, or by a combination thereof) provide for worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City and the Owners.

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

The City shall cause the books and accounts of the Electric System to be audited annually by an independent certified public accountant or firm of certified public accountants, and will make available for inspection by the Owners at the office of the City Clerk, and at the office of the Treasurer and at the office of each Fiscal Agent, a copy of the report of such accountant or accountants.

No Free Service. Except to the extent that the City is required under agreements and/or contracts existing on the effective date of the Resolution, no electricity or other service from the Electric System may be furnished or rendered free to any public agency (such term to include the United States of

America, the State of California, the City, and any other municipal or public corporation, district or public agency) or any private corporation or Person. No building or other real property of the Electric System shall be furnished free to any such public agency or any private Person or corporation. The City shall maintain and enforce valid regulations for the payment of bills for electric service. Such regulations shall at all times during such period provide that the City shall, to the extent permitted by law, discontinue electric service to any user whose electric bill has not been paid within the time fixed by said regulations.

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

(a) Operating and Maintenance Expenses;

(b) The interest on, principal and Accreted Value (or Mandatory Sinking Account Payment) of the Outstanding Bonds (whether Serial or Term Bonds) as they become due and payable;

(c) All other payments required for compliance with the Resolution or any Supplemental Resolutions; and

(d) All other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from Net Operating Revenues (including, but not limited to, payments due under the Subordinate Obligations).

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

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

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

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

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

Second: Either (i) the Net Operating Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the City for the latest Fiscal Year or for any 12 consecutive month period within the last completed 18-month period ended not more than one month before the issuance of or incurrence of such additional Bonds or Parity Debt as set forth in a Certificate of the City, or (ii) the estimated Net Operating Revenues for the first complete Fiscal Year when the improvements to the Electric System financed with the proceeds of the additional Bonds or Parity Debt shall be in operation as estimated by and set forth in a

Certificate of the City, plus, in either case, at the option of the City, either or both of the items in this covenant designated (a) and (b) below, shall have amounted to at least 1.10 times the Maximum Annual Debt Service in any Fiscal Year thereafter on all Bonds to be Outstanding and all Parity Debt to be outstanding immediately subsequent to the issuance or incurring of such additional Bonds or Parity Debt.

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

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

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

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

Nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate (including, but not limited to, Subordinate Obligations) to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinate obligations are payable as to (but not limited to) principal, premium, interest and reserve fund requirements, if any, only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Resolution or any Parity Debt documents. Further, nothing in the Resolution shall limit the ability of the City to issue or incur obligations which are junior and subordinate to the payment of amounts due under the Subordinate Obligations and other obligations payable on a parity therewith and which subordinated obligations are payable only out of Net Operating Revenues after the prior payment of all amounts then due required to be paid or set aside under the Resolution from Net Operating Revenues (i) first, for principal, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required by the Resolution or any Parity Debt documents and (ii) thereafter, for payment of amounts due under the Subordinate Obligations and other obligations

payable on a parity therewith, as the same become due and payable and at the times and in the manner as required in the Resolution.

The Fiscal Agent

Appointment; Duties of Fiscal Agent.

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

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

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

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

(E) Unless otherwise provided in a Supplemental Resolution any Fiscal Agent appointed under the provisions of the Resolution in succession to a Fiscal Agent shall be either the Treasurer or a trust company or bank having the powers of a trust company and having a corporate trust office in the State. Any such bank or trust company shall have a combined capital and surplus of at least one hundred million dollars ($100,000,000) and be subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the regulations of any supervising or examining authority above referred to, then for the purpose of the

Resolution the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Each successor shall be a bank or a trust company doing business in and having an office in the city where the predecessor did business and had an office.

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

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

Amendments

Amendments Permitted.

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

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

(in each case, except as expressly provided in the Resolution), without the consent of the affected Subordinate Swap Providers, affected Subordinate Swap Policy Providers and affected owners of a majority in aggregate amount of the Subordinate Bonds owned by the affected owners, or (e) modify any rights or duties of the Fiscal Agent without its consent.

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

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

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

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

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

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

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

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

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

Defeasance

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

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

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

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

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

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

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

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

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

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

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

Events of Default; Remedies

Events of Default. Each of the following events shall be an Event of Default under the Resolution:

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

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

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

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

(e) (1) Failure of the City generally to pay its debts as the same become due, (2) commencement by the City of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (3) consent by the City to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator

or other similar official for the City, the Electric System or any substantial part of the City's property, or to the taking possession by any such official of the Electric System or any substantial part of the City's property, (4) making by the City of any assignment for the benefit of creditors, or (5) taking of corporate action by the City in furtherance of any of the foregoing;

(f) The entry of any (1) decree or order for relief by a court having jurisdiction over the City or its property in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (2) appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the City, the Electric System or any substantial part of the City's property, or (3) order for the termination or liquidation of the City of its affairs; or

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

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

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

such percentage obtains, the Bondholders' Committee either shall have been elected by or their election shall have been approved by or concurred in, and such committee shall then represent, the Owners of such specified percentage of the Bond Obligation. A certificate of the election of the Bondholders' Committee, including the names and addresses of its chairman and other members, shall be filed with the City Clerk.

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

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

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

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

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

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

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

Special Insurance Provisions Relating to the 2008D Bonds

So long as the payment of principal of and interest on the 2008D Bonds is insured by a municipal bond insurance policy issued simultaneously with the delivery of the 2008D Bonds, the bond insurer shall be deemed to be the sole Owner of the 2008D Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Owners of the 2008D Bonds are entitled to take under the provisions of the Resolution pertaining to defaults and remedies under the Resolution.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Riverside (the "City") in connection with the City's issuance of its $209,740,000 Electric Revenue Bonds, Issue of 2008D (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 17662 of the City adopted by the City Council on January 8, 1991, as amended and supplemented, including as amended and supplemented by Resolution No. 21614, adopted by the City Council on April 22, 2008 (the "Resolution"). The City covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean any person or entity appointed by the City which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate. The initial Dissemination Agent shall be U.S. Bank National Association.

"Fiscal Year" shall mean the one-year period ending on June 30 of each year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission may be found at the following internet address: http://www.sec.gov/info/municipal/nrmsir.htm.

"Owner" shall mean a registered owner of the Bonds.

"Participating Underwriter" shall mean the original underwriter or underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days following the end of each Fiscal Year of the City (which Fiscal Year presently ends on June 30), commencing with the report for Fiscal Year 2007-08, provide to each Repository an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the City changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent, if any. If by such date the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City or the Dissemination Agent, if any, as the case may be, has not furnished any Annual Report to the Repositories by the date required in subsection (a), the City or the Dissemination Agent, as applicable, shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The City (or, in the event that the City shall appoint a Dissemination Agent hereunder, the Dissemination Agent) shall file the Annual Report with each Repository on or before the date required in subsection (a). In addition, if the City shall have appointed a Dissemination Agent hereunder, the Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

1. The audited financial statements of the City's Electric Utility for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles for governmental enterprises as prescribed from time to time by the Governmental Accounting Standards Board.

2. Principal amount of the Bonds outstanding as of the end of the immediately preceding Fiscal Year.

3. Balance in the 2008D Reserve Account as of the end of the immediately preceding Fiscal Year and a statement of the 2008D Bond Reserve Requirement.

4. Updated information comparable to the information in the table entitled "Electric System Facilities" as it appears in the Official Statement.

5. Updated information comparable to the information in the table entitled "Annual Electricity Supply" as it appears in the Official Statement.

6. Updated information comparable to the information in the table entitled "Total Energy Generated and Purchased and Peak Demand" as it appears in the Official Statement.

7. Updated information comparable to the information in the table entitled "Number of Meters" as it appears in the Official Statement.

8. Updated information comparable to the information in the table entitled "Energy Sold" as it appears in the Official Statement.

9. Updated information comparable to the information in the table entitled "Percentage Increase in Electric Rates" as it appears in the Official Statement.

10. Updated information comparable to the information in the table entitled "Revenues From Sales of Electricity" as it appears in the Official Statement.

11. Updated information comparable to the information in the table entitled "Average Billing Price" as it appears in the Official Statement.

12. Updated information comparable to the information in the table entitled "Historical Summary of Operations and Debt Service Coverage" as it appears in the Official Statement.

13. Updated information comparable to the information in the table entitled "Outstanding Debt of Joint Powers Agencies" as it appears in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, that have been submitted to each of the Repositories; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities

Rulemaking Board; and provided further, that the City shall clearly identify each such document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies.
2. non-payment related defaults.
3. modifications to rights of Bondholders.
4. optional, contingent or unscheduled Bond calls.
5. defeasances.
6. rating changes.
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.
8. unscheduled draws on the debt service reserves reflecting financial difficulties.
9. unscheduled draws on the credit enhancements reflecting financial difficulties.
10. substitution of the credit or liquidity providers or their failure to perform.
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Resolution.

SECTION 6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

SECTION 7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Owner or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if other than the City) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Owners or Beneficial Owners of the Bonds, or

any other party. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: May __, 2008

CITY OF RIVERSIDE

By:_____

Paul C. Sundeen
Treasurer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: CITY OF RIVERSIDE, CALIFORNIA

Name of Issue: ELECTRIC REVENUE BONDS, ISSUE OF 2008D

Date of Issuance: May ___, 2008

NOTICE IS HEREBY GIVEN that the City of Riverside, California (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated May ____, 2008, in connection with the Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF RIVERSIDE, CALIFORNIA

By: _____

Title: _____

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

May __, 2008

City of Riverside
Riverside, California

$209,740,000
City of Riverside, California
Electric Revenue Bonds, Issue of 2008D

Ladies and Gentlemen:

We have acted as bond counsel to the City of Riverside, California (the "City") in connection with the issuance by the City of its Electric Revenue Bonds, Issue of 2008D (the "Bonds") in the aggregate principal amount of $209,740,000. The Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended by Ordinance No. 5071 adopted by the City Council on March 22, 1983, and by Ordinance No. 6815 adopted by the City Council on July 26, 2005 (collectively, the "Ordinance"), and Resolution No. 17662 adopted by the City Council on January 8, 1991, as previously amended and supplemented (the "Master Resolution"), and as amended and supplemented by Resolution No. 21614 adopted by the City Council on April 22, 2008 (collectively, the "Bond Resolution"). The Bonds are being issued contemporaneously with and subsequent to the issuance by the City of its Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A (the "2008A Bonds"), its Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B (the "2008B Bonds") and its Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C (the "2008C Bonds" and, with the 2008A Bonds, the 2008B Bonds and the Bonds, the "2008 Bonds"). The 2008A Bonds, the 2008B Bonds and the 2008C Bonds were issued pursuant to the Ordinance, the Master Resolution and Resolution No. 21611 (relating to the 2008A Bonds), Resolution No. 21612 (relating to the 2008B Bonds) and Resolution No. 21613 (relating to the 2008C Bonds), each adopted by the City Council on April 22, 2008 (collectively, the "Variable Rate Bond Resolutions" and, with the Bond Resolution, the "2008 Bond Resolutions").

In our capacity as bond counsel, we have reviewed the Charter, certified copies of proceedings for the authorization, issuance and sale of the Bonds, including, without limitation, the Ordinance and the Bond Resolution, certifications of the City and others, opinions of counsel to the City and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Resolution.

Certain requirements and procedures contained or referred to in the Bond Resolution and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Resolution, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on

the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Bond Resolution are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special revenue obligations of the City.

2. The Bond Resolution was duly adopted at meetings of the City Council of the City which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout.

3. The Bonds are special limited obligations of the City payable from and secured by a pledge of and lien and charge upon the Net Operating Revenues and certain amounts held under the Bond Resolution. The general fund of the City is not liable for the payment of the Bonds or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds or their interest.

4. Additional Bonds and other Parity Debt of the City have been and may from time to time hereafter be issued under the Bond Resolution that are payable from Net Operating Revenues on a parity basis with the Bonds.

5. The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Under applicable Treasury Regulations, for purposes of evaluation of the excludability of interest on the Bonds, and given the issuance of the 2008A Bonds, the 2008B Bonds and the 2008C Bonds, the 2008 Bonds are treated as a single issue; noncompliance with any of the foregoing requirements in respect of any of the 2008 Bonds could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. The City has undertaken certain covenants in the 2008 Bond Resolutions necessary to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenants, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75% of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is

taken with respect to the 2008 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other bond counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

Very truly yours,

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the 2008D Bonds. The 2008D Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2008D Bond certificate will be issued for each maturity of 2008D Bond, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 the 2008D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008D Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008D 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 2008D Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2008D Bonds, except in the event that use of the book-entry system for the 2008D Bonds is discontinued.

To facilitate subsequent transfers, all 2008D Bonds deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2008D 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 2008D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008D Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners

will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2008D Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008D Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of 2008D Bonds may wish to ascertain that the nominee holding the 2008D Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008D Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2008D Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price (if any) and interest payments on the 2008D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Fiscal Agent, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Fiscal Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2008D Bonds at any time by giving reasonable notice to the City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, the 2008D Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2008D Bond certificates will be printed and delivered.

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

Discontinuation of the Book-Entry System

In the event that DTC determines not to continue to act as securities depository by giving notice to the City and the Fiscal Agent, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the 2008D Bonds that they be able to obtain certificates, the Fiscal Agent will execute, transfer and exchange 2008D Bonds as requested by DTC and will deliver new 2008D Bonds in fully registered form in authorized denominations in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the 2008D Bonds will be payable upon surrender thereof at the principal corporate trust

office of the Fiscal Agent. The interest on 2008D Bonds will be payable by check mailed to the respective owners thereof at their addresses as they appear on the books maintained by the Fiscal Agent.

Transfer and Exchange of 2008D Bonds

Any 2008D Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Resolution, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2008D Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Fiscal Agent. The 2008D Bonds may be exchanged at the corporate trust office of the Fiscal Agent for a like aggregate principal amount of 2008D Bonds of other authorized denominations of the same Series, tenor, maturity and interest rate; provided that no transfer or exchange may occur during the 15 days before the date of selection of 2008D Bonds for redemption, or of any 2008D Bond or portion of a 2008D Bond so selected for redemption. The Fiscal Agent shall require the bondowner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

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APPENDIX G

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on 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 unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

SPECIMEN

made to an Owner by or on behalf of the Issuer 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. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

SPECIMEN

FINANCIAL SECURITY ASSURANCE®

ENDORSEMENT NO. 1 TO MUNICIPAL BOND INSURANCE POLICY (California Insurance Guaranty Association)

ISSUER: Policy No.: -N

BONDS: Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

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 SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

SPECIMEN

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 560NY (CA 1/91)

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CITY OF RIVERSIDE, CALIFORNIA • ELECTRIC REVENUE BONDS ISSUE OF 2008D

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