

NEW ISSUE – FULL BOOK-ENTRY

RATINGS:
Fitch: AA-
S&P: AA-
See “RATINGS.”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2009A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2009A Bonds is exempt from State of California personal income tax. See “TAX MATTERS” with respect to tax consequences relating to the 2009A Bonds.

\$34,920,000
CITY OF RIVERSIDE, CALIFORNIA
Electric Revenue Refunding Bonds
Issue of 2009A

Dated: Date of Delivery

Due: October 1, as shown on the inside cover

Description of the 2009A Bonds. The 2009A Bonds will be issued by the City of Riverside (the “City”) 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 2009A Bonds. Purchasers of the 2009A Bonds will not receive physical certificates representing their interests in 2009A Bonds purchased. Principal of, premium, if any, and interest on the 2009A 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 2009A Bonds.

The 2009A 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 2009A 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 2009A Bonds is payable on April 1 and October 1 of each year, commencing April 1, 2010.

No Redemption Prior to Maturity. The 2009A Bonds are not subject to redemption prior to maturity. See “DESCRIPTION OF THE 2009A BONDS.”

Purpose of the 2009A Bonds. The 2009A Bonds are being issued to (i) refund on a current basis the City’s outstanding Electric Refunding/Revenue Bonds, Issue of 1998 (the “1998 Bonds”), (ii) refund on an advance basis a portion of the City’s outstanding Electric Revenue Bonds, Issue of 2001 (the “2001 Bonds”), and (iii) pay costs of issuing the 2009A Bonds. See “PLAN OF FINANCE.”

Security for the 2009A Bonds. The 2009A Bonds are special limited obligations of the City, and are a charge upon and are payable solely from and secured by a lien upon the Net Operating Revenues (as defined in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS”) of the City’s electric public utility system (the “Electric System”) and other funds, assets and security described in the Resolution (as described in this Official Statement), and do not constitute a general obligation or indebtedness of the City. **The City is not funding a debt service reserve account for the 2009A Bonds.**

Existing Parity Debt. Following issuance of the 2009A Bonds and defeasance of the 1998 Bonds and a portion of the 2001 Bonds, the 2009A Bonds will be secured by and payable from Net Operating Revenues on a parity with the following outstanding bonds (collectively, the “Prior Parity Bonds”): (i) the remaining portion of the 2001 Bonds, (ii) Electric Refunding Revenue Bonds, Issue of 2003, (iii) Electric Revenue Bonds, Issue of 2004A, (iv) Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A, Issue of 2008B and Issue of 2008C, and (v) Electric Revenue Bonds, Issue of 2008D. In addition, the City has certain outstanding reimbursement obligations that are secured by and payable from Net Operating Revenues on a parity with the Prior Parity Bonds and the 2009A Bonds (“Prior Parity Debt”).

Future Parity Debt. The City is authorized to issue additional bonded indebtedness and to incur additional obligations that are secured by a lien upon and payable from Net Operating Revenues on a parity with the Prior Parity Bonds, the Prior Parity Debt and the 2009A Bonds, as described in this Official Statement.

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 but not defined on this cover page have the meanings set forth in this Official Statement.

The 2009A Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City. Nossaman LLP is acting as counsel to the Underwriter. It is expected that the 2009A Bonds in definitive form will be available for delivery through the facilities of the DTC book-entry system on or about December 22, 2009.



Dated: December 9, 2009

CITY OF RIVERSIDE, CALIFORNIA
Electric Revenue Refunding Bonds
Issue of 2009A

MATURITY SCHEDULE
Base CUSIP: 768874†

<u>Maturity Date</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <u>Number†</u>
2010	\$2,000,000	0.350%	0.350%	100.000	RN1
2010	5,495,000	3.000	0.350	102.048	RX9
2011	450,000	3.000	0.720	104.013	RP6
2011	2,640,000	5.000	0.720	107.534	RY7
2012	725,000	3.000	1.010	105.431	RQ4
2012	2,535,000	5.000	1.010	110.889	RZ4
2013	1,425,000	3.000	1.280	106.317	RR2
2013	5,835,000	5.000	1.280	113.664	SA8
2014	6,105,000	4.000	1.640	110.794	RS0
2014	930,000	5.000	1.640	115.368	SB6
2015	2,140,000	4.000	2.050	110.566	RT8
2015	1,000,000	5.000	2.050	115.986	SC4
2016	1,150,000	5.000	2.350	116.504	RU5
2017	1,215,000	5.000	2.650	116.410	RV3
2018	1,275,000	4.000	2.930	108.223	RW1

† CUSIP Copyright 2009, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the City nor the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

**CITY OF RIVERSIDE, CALIFORNIA
CITY COUNCIL**

Ronald O. Loveridge, Mayor

Mike Gardner, 1st Ward
Andy Melendrez, 2nd Ward
Rusty Bailey, 3rd Ward
Paul Davis, 4th Ward

Chris Mac Arthur, 5th Ward
Nancy Hart, 6th Ward
Steve Adams, 7th Ward

BOARD OF PUBLIC UTILITIES

Robert A. Stockton, Chairman

Mary Curtin
Ian J. Davidson
Robert Elliott
Juan "Manny" Sanchez

Justin Scott-Coe
Gustavo Segura
Ken L. Sutter
Berneta M. Titus

CITY OFFICIALS

Bradley J. Hudson, *City Manager*

Paul C. Sundeen,
Assistant City Manager / CFO

David H. Wright,
Public Utilities General Manager

Tom DeSantis,
Assistant City Manager

Stephen H. Badgett,
Utilities Deputy General Manager / Energy Delivery

Belinda Graham,
Assistant City Manager

Kevin S. Milligan,
Utilities Assistant General Manager / Water Delivery

Gregory P. Priamos,
City Attorney

Gary L. Nolff,
Utilities Assistant General Manager / Resources

Colleen J. Nicol,
City Clerk

Reiko A. Kerr,
*Utilities Assistant General Manager /
Finance and Customer Services*

Brent A. Mason,
Assistant Director of Finance

BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

FINANCIAL ADVISOR

Public Financial Management Inc.
San Francisco, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

The Arbitrage Group, Inc.
Tuscaloosa/Buhl, Alabama

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the 2009A 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 2009A Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion contained in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale of the 2009A Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

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

IN CONNECTION WITH THE OFFERING OF THE 2009A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2009A 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 in this Official Statement, 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 2009A Bonds.

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\$34,920,000
CITY OF RIVERSIDE, CALIFORNIA
Electric Revenue Refunding Bonds
Issue of 2009A

INTRODUCTION

This Official Statement, including the Appendices, is provided to furnish information in connection with the issuance and sale by the City of Riverside, California (the “**City**”) of the above-captioned bonds (the “**2009A Bonds**”).

Authority for the 2009A Bonds

The 2009A Bonds are authorized and issued pursuant to the following, which are collectively referred to in this Official Statement as the “**Law**”:

(i) the City Charter,

(ii) 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

(iii) Resolution No. 17662 adopted by the City Council on January 8, 1991 (the “**Master Resolution**”), as previously amended and supplemented, and as amended and supplemented by a fourteenth supplemental resolution providing for the issuance of the 2009A Bonds (the “**Fourteenth Supplemental Resolution**”), adopted by the City Council on November 17, 2009. The Master Resolution, as previously amended and supplemented, and as further amended and supplemented by the Fourteenth Supplemental Resolution, is collectively referred to in this Official Statement as the “**Resolution**.”

Purpose of the 2009A Bonds

The 2009A Bonds, together with certain available amounts, are being issued to (i) refund on a current basis the City’s outstanding 1998 Refunding/Revenue Bonds (the “**1998 Bonds**”), (ii) refund on an advance basis a portion of the City’s outstanding Electric Revenue Bonds, Issue of 2001 (the “**2001 Bonds**”), which had been issued pursuant to Resolution No. 19967 adopted by the City Council on July 24, 2001 (the “**Fourth Supplemental Resolution**”), and (iii) pay costs of issuing the Bonds. **The City is not funding a debt service reserve account for the 2009A Bonds.** See “PLAN OF FINANCE.”

The Electric System

Except for a few small areas of recent annexations, the City’s electric utility system (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, 2009, the number of meters of the Electric System was 106,385 and the total megawatt-hours (“**MWh**”) generated and purchased were 2,563,100. See “THE ELECTRIC SYSTEM.”

Security for the 2009 Bonds; Rate Covenant

Nature of Pledge. Pursuant to the Law, the 2009A Bonds are special limited obligations of the City and are secured by a pledge of and are a charge upon and are payable 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. The term Net Operating Revenues is defined in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Rate Covenant. The City is obligated by the Resolution to prescribe, revise and collect rates and collect charges for the services, facilities and electricity of the Electric System during each Fiscal Year in an amount sufficient to pay debt service on the Bonds and Parity Debt, to pay Operation and Maintenance Expenses and to pay other obligations payable from Net Operating Revenues, with specified requirements as to priority and coverage (when coverage is required, the City may take into account any unrestricted funds of the Electric System designated by the City Council by resolution and available to pay Operating and Maintenance Expenses and/or debt service on the Bonds). 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.

Limited Obligation. The general fund of the City is not liable for the payment of the principal of or interest and redemption premium (if any) on the 2009A Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium (if any) on the 2009A Bonds. 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 and redemption premium (if any) on the 2009A 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 of the Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the principal of and interest and redemption premium (if any) on the 2009A Bonds.

Outstanding Parity Debt

Following issuance of the 2009A Bonds, defeasance of the 1998 Bonds and defeasance of a portion of the 2001 Bonds, the 2009A Bonds will be secured by and payable from Net Operating Revenues on a parity with \$466,680,000 outstanding principal amount of “**Prior Parity Bonds**” and certain outstanding “**Prior Parity Debt**” (as those terms are defined in “PLAN OF FINANCE – Outstanding Bonds and Prior Parity Debt” below).

Additional Bonds and Parity Debt

The City is authorized under the Resolution to issue additional bonds (“**Additional Bonds**”) that are secured by a pledge of and a charge upon and are payable from Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the 2009A Bonds, the Prior Parity Bonds and the Prior Parity Debt. The Prior Parity

Bonds, the 2009A Bonds and any Additional Bonds are referred to in this Official Statement as the “**Bonds**”.

The City is also authorized to issue and incur additional parity obligations that do not constitute Bonds that are secured by and payable from Net Operating Revenues on a parity with the Bonds. The Prior Parity Debt and any such obligations are referred to in this Official Statement as “**Parity Debt**”.

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds and Parity Debt.”

No Debt Service Reserve Account

The City is not funding a debt service reserve account for the 2009A Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - 2009A 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, 2009, 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 Upgrading Project**”); a 256 mile, ±500 kV alternating current (“**AC**”) transmission line from the Phoenix, Arizona area to the area of Boulder City, Nevada (the “**Mead-Phoenix Transmission Project**”); a 202 mile, ±500 kV AC transmission line from the area of Boulder City, Nevada, to the Adelanto Substation in Southern California (the “**Mead-Adelanto Transmission Project**”); and an approximately 490 mile, ±500 kV 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 – Joint Powers Agency Obligations.”

Subordinate Obligations

The City has incurred certain obligations and has the right to issue additional obligations that are secured by and payable from Net Operating Revenues on a subordinate basis to the Bonds and the Parity Debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinate Obligations.”

Continuing Disclosure

The City will covenant for the benefit of the owners and beneficial owners of the 2009A 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 2009A 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 in this Official Statement to the 2009A 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.

Financial and statistical information set forth in this Official Statement, except for the audited financial statements included in Appendix B, and unless otherwise indicated, is unaudited. The source of such information is the City unless otherwise stated.

Terms not defined in this Official Statement have the meanings set forth in the respective documents.

PLAN OF FINANCE

Refunding of 1998 Bonds

The City will use a portion of the proceeds of the 2009A Bonds to refund the outstanding 1998 Bonds. The 1998 Bonds are outstanding in the principal amount of \$28,460,000. In order to refund the 1998 Bonds, the City and Union Bank, N.A. (the “**1998 Escrow Agent**”) will enter into an agreement (the “**1998 Escrow Agreement**”) under which the Escrow Agent will establish an irrevocable escrow fund (the “**1998 Escrow Fund**”) and deposit therein a portion of the proceeds of the 2009A Bonds and amounts currently held in the funds and accounts established for the 1998 Bonds. Amounts on deposit in the 1998 Escrow Fund on the closing date will be sufficient to pay the Redemption Price, together with accrued interest to the date of redemption, of the outstanding 1998 Bonds in full approximately 30 days after the 2009A Bonds are priced.

Sufficiency of the deposits in the 1998 Escrow Fund for those purposes will be verified by The Arbitrage Group, Inc. (the “**Verification Agent**”). See “VERIFICATION OF MATHEMATICAL ACCURACY” below.

The amounts held and invested by the 1998 Escrow Agent in the 1998 Escrow Fund are pledged solely to the payment of the 1998 Bonds. Neither the funds deposited in the 1998 Escrow Fund nor the interest on the invested funds will be available for the payment of principal and interest with respect to the 2009A Bonds.

Refunding of 2001 Bonds

The 2001 Bonds are outstanding in the principal amount of \$19,370,000. A portion of the 2009A Bond proceeds will be used to refund a \$8,340,000 portion of the outstanding principal amount of the 2001 Bonds (the “**Refunded 2001 Bonds**”), leaving \$11,030,000 principal amount of the 2001 Bonds outstanding (the “**Remaining 2001 Bonds**”). The Refunded 2001 Bonds consist of the 2001 Bonds maturing on October 1, 2013 and on October 1, 2014.

In order to refund the 2001 Bonds, the City and U.S. Bank National Association (the “**2001 Escrow Agent**”) will enter into an agreement (the “**2001 Escrow Agreement**”) under which the Escrow Agent will establish an irrevocable escrow fund (the “**2001 Escrow Fund**”) and deposit therein a portion of the proceeds of the 2009A Bonds and certain allocable moneys currently held in the funds and accounts established for the Refunded 2001 Bonds. Amounts on deposit in the 2001 Escrow Fund on the closing date will be sufficient to pay (i) the principal of and interest due on the Refunded 2001 Bonds through October 1, 2011, and (ii) the Redemption Price, together with accrued interest to the date of redemption, of the Refunded 2001 Bonds chosen for redemption on October 1, 2011.

Sufficiency of the deposits in the 2001 Escrow Fund for those purposes will be verified by the Verification Agent. See “VERIFICATION OF MATHEMATICAL ACCURACY” below.

The amounts held and invested by the 2001 Escrow Agent in the 2001 Escrow Fund are pledged solely to the payment of the Refunded 2001 Bonds. Neither the funds deposited in the 2001 Escrow Fund nor the interest on the invested funds will be available for the payment of principal and interest with respect to the 2009A Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds in connection with the 2009A Bonds are as follows:

Sources:	
Principal Amount of 2009A Bonds	\$34,920,000.00
Net Original Issue Premium	3,214,105.50
Moneys Relating to the 2001 Bonds	<u>437,850.00</u>
Total Sources	\$38,571,955.50
Uses:	
1998 Escrow Fund	\$9,207,662.19
2001 Escrow Fund	29,015,582.57
Costs of Issuance ⁽¹⁾	<u>348,710.74</u>
Total Uses	\$38,571,955.50

⁽¹⁾ Includes legal fees, Fiscal Agent fees, Underwriter's discount, printing costs, rating agency fees and other costs incurred or to be incurred in connection with the issuance of the 2009A Bonds.

Outstanding Bonds and Parity Debt

Outstanding Prior Parity Bonds. Following issuance of the 2009A Bonds and defeasance of the 1998 Bonds and assuming defeasance of the 2001 Bonds, the 2009A Bonds will be secured by and payable from Net Operating Revenues on a parity with the following outstanding bonds (collectively, the "**Prior Parity Bonds**"):

- the Remaining 2001 Bonds.
- 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**");
- 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**");
- 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**");
- 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**");
- 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**");

- Electric Revenue Bonds, Issue of 2008D (the “**2008D Bonds**”), pursuant to a resolution adopted by the City Council on April 22, 2008 (the “**Thirteenth Supplemental Resolution**”).

<u>Name of Issue</u>	<u>Outstanding Principal Amount</u>
Remaining 2001 Bonds	\$11,030,000
Electric Refunding Revenue Bonds, Issue of 2003	31,625,000
Electric Revenue Bonds, Issue of 2004A	16,295,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A	84,515,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B	56,725,000
Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C	56,750,000
Electric Revenue Bonds, Issue of 2008D	209,740,000
Electric Revenue Bonds, Issue of 2009A	<u>34,920,000</u>
Total	\$501,600,000

Prior Parity Debt. In connection with the issuance of the 2008A Bonds, the 2008B Bonds and the 2008C Bonds, the City entered into a reimbursement agreement with Bank of America, N.A. (the “**2008 Reimbursement Agreement**”). The City’s payment obligations under the 2008 Reimbursement Agreement, as well as certain reimbursement obligations to Financial Security Assurance, Inc., as insurer of the 2008B Bonds (the “**2008B Insurer**”), constitute Parity Debt and are referred to in this Official Statement as the “**Prior Parity Debt.**”

See “RISK FACTORS – 2008 Reimbursement Agreement.”

Debt Service Requirements

The following table indicates the scheduled debt service on the Prior Parity Bonds and the 2009A Bonds, assuming defeasance of the 1998 Bonds and the Refunded 2001 Bonds.

Debt Service Requirements⁽¹⁾

<u>Period Ending October 1)</u>	<u>Prior Parity Bonds Principal⁽²⁾</u>	<u>Prior Parity Bonds Interest⁽³⁾</u>	<u>2009A Bonds Principal</u>	<u>2009A Bonds Interest</u>	<u>2009A Bonds Debt Service</u>	<u>Total Bonds Debt Service</u>
2010	\$ 15,210,000	\$19,327,487.26	\$7,495,000	\$1,081,822.50	\$8,576,822.50	\$43,114,309.76
2011	17,850,000	18,644,247.50	3,090,000	1,224,050.00	4,314,050.00	40,808,297.50
2012	18,645,000	17,881,881.26	3,260,000	1,078,550.00	4,338,550.00	40,865,431.26
2013	13,425,000	16,999,062.50	7,260,000	930,050.00	8,190,050.00	38,614,112.50
2014	7,445,000	16,367,166.26	7,035,000	595,550.00	7,630,550.00	31,442,716.26
2015	12,275,000	16,082,340.00	3,140,000	304,850.00	3,444,850.00	31,802,190.00
2016	11,500,000	15,692,985.00	1,150,000	169,250.00	1,319,250.00	28,512,235.00
2017	9,610,000	15,328,540.50	1,215,000	111,750.00	1,326,750.00	26,265,290.50
2018	9,935,000	15,004,267.26	1,275,000	51,000.00	1,326,000.00	26,265,267.26
2019	11,950,000	14,665,219.00	-	-	-	26,615,219.00
2020	12,355,000	14,257,780.26	-	-	-	26,612,780.26
2021	12,775,000	13,836,694.50	-	-	-	26,611,694.50
2022	13,215,000	13,397,001.76	-	-	-	26,612,001.76
2023	13,675,000	12,936,583.76	-	-	-	26,611,583.76
2024	14,225,000	12,389,436.00	-	-	-	26,614,436.00
2025	14,790,000	11,820,839.50	-	-	-	26,610,839.50
2026	15,390,000	11,222,868.26	-	-	-	26,612,868.26
2027	16,010,000	10,605,070.50	-	-	-	26,615,070.50
2028	16,655,000	9,959,422.00	-	-	-	26,614,422.00
2029	17,325,000	9,289,546.00	-	-	-	26,614,546.00
2030	18,020,000	8,594,114.76	-	-	-	26,614,114.76
2031	18,765,000	7,849,497.26	-	-	-	26,614,497.26
2032	19,540,000	7,073,472.00	-	-	-	26,613,472.00
2033	20,350,000	6,264,088.50	-	-	-	26,614,088.50
2034	21,195,000	5,420,047.26	-	-	-	26,615,047.26
2035	22,075,000	4,540,047.26	-	-	-	26,615,047.26
2036	22,990,000	3,622,787.50	-	-	-	26,612,787.50
2037	24,140,000	2,473,287.50	-	-	-	26,613,287.50
2038	25,345,000	1,266,287.50	-	-	-	26,611,287.50
Total	\$466,680,000	\$332,812,068.62	\$34,920,000	\$5,546,872.50	\$40,466,872.50	\$839,958,941.12

⁽¹⁾ Totals may not add because of rounding.

⁽²⁾ Includes debt service on the Remaining 2001 Bonds.

⁽³⁾ 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 described in "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinate Obligations." Also assumes an interest rate of 3.500% on the unhedged portion of the 2008A Bonds. Does not include ongoing fees.

DESCRIPTION OF THE 2009A BONDS

The following is a summary of certain provisions of the 2009 Bonds. Please refer to the complete text of the 2009 Bonds and to the Resolution for more detailed information. See also "APPENDIX C - Summary of Certain Provisions of the Resolution."

General

The 2009A 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 2009A Bonds may be purchased in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Interest on the 2009A Bonds will be payable on April 1 and October 1 of each year, commencing April 1, 2010, 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 2009A 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 2009A 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 – DTC and the Book-Entry Only System."

Each 2009A Bond will 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 will bear interest from that interest payment date, or unless it is authenticated prior to the first Record Date, in which event it will bear interest from the dated date of the 2009A Bonds or unless at the time of authentication interest is in default, in which event it shall bear interest from the interest payment date to which interest has been paid or provided for.

So long as any 2009A 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 will be in accordance with arrangements among the City, the Fiscal Agent and DTC. See "APPENDIX F – DTC and the Book-Entry Only System."

No Redemption

The 2009A Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Net Operating Revenues

Pursuant to the Law, the 2009A Bonds are special limited obligations of the City and are secured by a pledge of and are a charge upon and are payable, as to the principal thereof and interest thereon, and any premium upon redemption thereof, solely from and secured by a lien upon the Net Operating Revenues and other funds, assets and security described under the Resolution, on a parity with the Prior Parity 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 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 (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Subordinate Obligations"). Operating and Maintenance Expenses are the expenses of operating and maintenance of the Electric System, including payments to certain joint powers agencies and any necessary contribution to the retirement system of the Electric System employees.

Limited Obligation

The general fund of the City is not liable for the payment of the principal of or interest and redemption premium on the 2009A Bonds, nor is the credit or the taxing power of the City pledged for the payment of the principal of or interest and redemption premium on the 2009A Bonds. 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 and redemption premium on the 2009A 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 of the Electric System and other funds, security or assets which are, under the terms of the Resolution, pledged to the payment of the principal of or interest and redemption premium on the 2009A Bonds.

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 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 has been created under the Thirteenth Supplemental Resolution, all of which are held by the Fiscal Agent. The allocable funds relating to the Refunded 2001 Bonds held in the Reserve Account created for the 2001 Bonds under the Fourth Supplemental Resolution will be transferred and applied in connection with the refunding and defeasance of the Refunded 2001 Bonds. The Reserve Account for the 1998 Bonds was funded from a reserve fund surety bond.

Electric Revenue Fund. All Gross Operating Revenues will be deposited with the Treasurer and placed in the 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 Bonds and any Parity Debt and prior to the establishment and maintenance of any reserves therefor and (ii) amounts becoming due under Subordinate Obligations.

Bond Service Account. Following the required transfers for the payment of the Operating and Maintenance Expenses of the Electric System for that month, the City will set aside and transfer within the Electric Revenue Fund to the Bond Service Account for transfer to the Interest Account and to the Principal Account, as applicable, the following amounts at the following times:

Interest Account. The Treasurer will 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 will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on the next interest payment date 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 will 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 the 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 the deposit into the Interest Account for any month will 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) only after all deposits have been made for such month in the Principal Account and the Bond Reserve Accounts as provided in the sections entitled "Principal Account" and "Reserve Account" below, respectively, all Subordinate Payments becoming due and payable under all Subordinate Obligations for that month (or if the amount of the 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 described in clause (d) 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 in the Principal Account as soon as practicable in each month an amount equal to at least (i) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Bonds having semi-annual maturity dates or semi-annual Mandatory Sinking Account Payments due within the next six months plus (ii) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Bonds having annual maturity dates or annual Mandatory Sinking Account Payments due 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 established and maintained for Bonds of that Series, no amounts need be set aside towards such principal to be so refunded or paid. 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. 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 any reserve account established pursuant to a Supplemental Resolution for a Series of Bonds and in any reserve account established for Parity Debt 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 in such reserve account 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 (d) under "Interest Account" above.

Excess Earnings and Certain Other Amounts. Following the transfers described above as required by the Resolution, 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 Prior Parity Bonds, the 2009A 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. Following the transfers described above as required by the Resolution, the Treasurer will set aside in the Renewal and Replacement Account as soon as practicable in each month such 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 in the Bond Service Account.

Interest Account. Amounts in the Interest Account will 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.

Principal Account.

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

(b) Notwithstanding paragraph (a) 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 paragraph will be delivered to the Fiscal Agent for such Bonds and cancelled and destroyed by that Fiscal Agent and a certificate of destruction will be delivered to the Treasurer by the Fiscal Agent for such Series.

Rate Covenant

Existing 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.

Future Change in Rate Covenant. Pursuant to the Fourteenth Supplemental Resolution, at such time as the Prior Parity Bonds and the Prior Parity Debt are no longer outstanding (the final maturity date of the Prior Parity Bonds is October 1, 2038, although they could be redeemed earlier) or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), the following paragraph will be added to the Rate Covenant:

“For purposes of calculating the interest due under (b) above, if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.”

No Debt Service Reserve Account

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The City is not funding a reserve account for the 2009A Bonds. The owners of the 2009A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

Additional Bonds and Parity Debt

The City may incur additional obligations payable from Net Operating Revenues as described below.

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 in this Official Statement, see "APPENDIX C - Summary of Certain Provisions of the Resolution."

Subordinate Obligations

Under 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**").

Existing Subordinate Debt. The City is a party to two interest rate swap agreements (collectively, the "**Swap Agreements**") that constitute Subordinate Obligations.

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 was obligated to make on the 2004B Bonds into substantially fixed rate payments. On the delivery date of the 2008A Bonds, the 2004 Swap Agreement was reallocated to the 2008A Bonds. A portion of the 2008A Bonds remained unhedged subsequent to such reallocation. The obligations of the 2004 Swap Provider under the 2004 Swap Agreement were guaranteed by Merrill Lynch & Co., Inc. (the "**2004 Swap Guarantor**").

The 2004 Swap Agreement has a scheduled termination date of October 1, 2029. Pursuant to the Transaction under the 2004 Swap Agreement, the City pays a fixed rate of interest on a specified notional amount. 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. The periodic amounts payable by a party under the 2004 Swap Agreement are netted against the payments to be received by such party thereunder.

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**”; collectively with the 2004 Swap Provider, the “**Swap Providers**”) 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 was obligated to make on the 2005A Bonds and the 2005B Bonds into substantially fixed rate payments. 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. The obligations of the 2005 Swap Provider under the 2005 Swap Agreement were guaranteed by The Bear Stearns Companies Inc. (the “**2005 Swap Guarantor**”).

The 2005 Swap Agreements have scheduled termination dates of October 1, 2035. Pursuant to the respective transactions under the 2005 Swap Agreements, the City pays a fixed rate of interest on specified notional amounts. 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. The periodic amounts payable by a party under the respective 2005 Swap Agreements are netted against the payments to be received by such party thereunder.

Payments by the City under the Swap Agreements. 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.

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.

Information About the Swap Providers. According to a representative of Bank of America Corporation, following the merger of the 2004 Swap Provider and Bank of America Corporation, the identities of the 2004 Swap Provider and the 2004 Swap Guarantor have not changed. The 2004 Swap Provider and the 2004 Swap Guarantor are wholly-owned subsidiaries of Bank of America Corporation. *The City can provide no assurances as to the accuracy of the information summarized in this paragraph.*

According to a representative of JPMorgan Chase & Co., following the merger of Bear Stearns and JPMorgan Chase & Co., (i) the identities of the 2005 Swap Provider and the 2005 Swap Guarantor have not changed and (ii) JPMorgan Chase & Co. guarantees the obligations of both the 2005 Swap Provider and the 2005 Swap Guarantor pursuant to an Amended and Restated Guaranty Agreement dated March 16, 2008. *The City can provide no assurances as to the accuracy of the information summarized in this paragraph.*

Future Subordinate Debt. Nothing in the Resolution limits 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.

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 21 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 35 years.

Mr. Kevin S. Milligan, Utilities Assistant General Manager / Water Delivery, is a registered engineer, and 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 25 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 35 years in the electric utilities industry, including 17 years as Power Resources Projects / Contracts Manager (16 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.

Ms. Reiko A. Kerr, Utilities Assistant General Manager / Finance & Customer Services, is a certified public accountant with over 17 years of accounting experience. She's been with the Utility since 2000 and has served in various management roles including: Finance/Rates Manager, Assistant CFO/Energy Risk Manager, and spent one year as the Power Resources Projects/Contracts Manager where she was instrumental in brokering, among other power contracts, a 96 megawatt, 30-year, renewable geothermal energy contract with the Northwestern Band of Shoshone Nation in Utah.

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:

Robert A. Stockton - 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.

Ken L. Sutter – Vice Chairman of the Board, appointed to the Board in 2005, term expires March 1, 2013. Mr. Sutter is a retired licensed architect.

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.

Mary Curtin - Appointed to the Board in 2006, term expires March 1, 2013. Ms. Curtin is a teacher at a local community college.

Justin Scott-Coe – Appointed to the Board in 2009, term expires March 1, 2013. Mr. Scott-Coe is a Public Affairs Specialist for a local Water District.

Gustavo Segura – Appointed to the Board in 2008, term expires March 1, 2013. Mr. Segura is an Instructional Media Broadcast Coordinator at a local Community College.

The Department's administrative offices are located at 3901 Orange Street, Riverside, California 92501.

Employee Relations

As of June 30, 2009, 416 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 electric division 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, 2011. The Electric System has not faced any 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 8% 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, and recent trend information may be found in the notes of the City's "Comprehensive Annual Financial Report". See also Note 1 to "APPENDIX B - Audited Financial Statements of the City of Riverside Electric Utility for the Fiscal Year Ended June 30, 2009" for further discussion.

The Electric System contributes to two single-employer defined benefit healthcare plans: Stipend Plan and the Implied Subsidy Plan (ISP). These plans provide other post-employment

health care benefits for eligible retirees and beneficiaries. The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements, including SEIU and IBEW. Benefit provisions for the Stipend Plan are established and amended through the various memoranda of understanding with the employee unions. The Electric System's contribution is financed on a "pay-as-you-go-basis."

The Implied Subsidy Plan allows retirees and current employees to be insured together as a group, and allows a lower rate for retirees than if they were insured separately. Upon retirement, retirees pay the full amount of applicable premiums; however, they participate in the Utility's healthcare plans and, as such, an implicit subsidy exists. The Electric System's contributions to the Implied Subsidy Plan are established by the City Council. The Electric System is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries. See also Note 1 to "APPENDIX B - Audited Financial Statements of the City of Riverside Electric Utility for the Fiscal Year Ended June 30, 2009" for further discussion.

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 in this Official Statement, 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 agreements in connection with its previously issued Electric System revenue bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Subordinate Obligations" for additional information.

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 Springs Generating Station ("**Springs**"), and the City's 98 MW Riverside Energy Resource Center ("**RERC**") Units 1&2, (iii) the City's ownership interest in Units 2 and 3 of the San Onofre Nuclear Generating Station ("**SONGS**"), (iv) entitlements in the IPP Generating Station, Palo Verde Nuclear Generating Station, and the Hoover Upgrading Project, (v) contracts for renewable energy and (vi) purchases of firm energy from various western utilities when it is available at an economical price or when needed to satisfy periods of peak demand and (vii) energy purchases through the California Independent System Operator ("**CAISO**"). For the fiscal year ended June 30, 2009, the total number of meters in the Electric System was 106,385 and the total MWh generated and purchased were 2,563,100.

Existing Facilities

Excluding its ownership interest in Springs, RERC Units 1&2, 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, to enhance reliability and service delivery to customers and to provide ancillary services in the CAISO markets. 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 Units 1&2 are 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 Units 1&2 serve the Electric System's native load when economic or during periods of peak power demand in the City, enhance reliability and service delivery to customers and provide ancillary services in the CAISO markets

Due to the seasonal peaking nature of the City's demand, natural gas procurement for the Springs and RERC Units 1&2 are currently 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 1,291 circuit miles of sub-transmission and distribution lines as of the fiscal year ended June 30, 2009. The 769 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 of 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 CAISO. 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

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Utility Plant (less provision for accumulated depreciation) ⁽¹⁾	\$277,138	\$396,934	\$395,404	\$432,103	\$459,694
Construction in Progress ⁽¹⁾	\$95,988	\$26,790	\$54,663	\$69,746	\$102,234
Distribution - Overhead Circuit Miles	531	527	528	524	522
Underground Circuit Miles	622	663	704	742	769
Street Light Circuit Miles	870	885	906	921	955

⁽¹⁾ Dollars in thousands of dollars and rounded to the nearest thousand.

Power Supply

The electricity supplied to the City consists of power from (i) the City’s Springs and RERC Generating Projects, (ii) its ownership interest in SONGS, (iii) entitlements in the IPP Generating Station, the Palo Verde Nuclear Generating Station and the Hoover Upgrading Project, (iv) long-term contracts of firm purchases from BPA and Deseret (v) contracts for renewable energy, (vi) firm energy purchases from other entities, and (vii) energy purchased through the CAISO. For the fiscal year ended June 30, 2009 the overall average net cost of generation and transmission was 7.6 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, 2009 are described below. During the fiscal year ended June 30, 2009 the Electric System generated and purchased a total of 2,563,100 MWh of electricity for delivery to customers throughout the City and other wholesale purchasers. The following table sets forth the amounts in MWh and percentages of electricity obtained by the City during the fiscal year ended June 30, 2009.

ANNUAL ELECTRICITY SUPPLY⁽¹⁾
Fiscal Year Ended June 30, 2009

Resource	MWh	Percentage
IPP Generating Station	1,051,200	41.0
Firm Contracts (Deseret and others)	885,900	34.6
SONGS	281,400	11.0
PVNGS	97,700	3.8
Hoover Upgrading Project	32,500	1.3
Springs / RERC	52,000	2.0
Renewable Resources	233,000	9.1
Net Exchange In / (Out)	<u>(70,600)</u>	<u>(2.8)</u>
Total	<u>2,563,100</u>	<u>100.0%</u>

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

The system peak for the fiscal year ended June 30, 2009 was 534 MW. The 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,				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
City Generation (MWh)	284,400	287,000	375,000	335,900,	333,700
Other Sources (MWh)	<u>2,343,800</u>	<u>2,290,300</u>	<u>2,276,000</u>	<u>2,395,300</u>	<u>2,229,400</u>
System Total (MWh) ⁽¹⁾	<u>2,628,200</u>	<u>2,577,300</u>	<u>2,651,000</u>	<u>2,731,200</u>	<u>2,563,100</u>
System Native Load (MWh)	1,962,000	2,038,000	2,167,000	2,169,000	2,145,000
System Peak Demand (MW)	519.1	550.6	586.3 ⁽²⁾	604.4 ⁽²⁾	534.1 ⁽³⁾

⁽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.

⁽³⁾ Decrease from previous years is a result of a decrease in customer consumption in conjunction with a downturn in the economy.

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 \$2,394,422,000 principal amount outstanding as of June 30, 2009 (which amount includes an unamortized refunding charge of \$408,715,000 and an unamortized premium of \$3,902,503 which will be amortized over the life of the refunding bonds), of which approximately \$182,383,000 in principal amount was payable by the City. In the fiscal year ended June 30, 2009, the IPP Generating Station provided 1,051,200 MWh of energy to the City at an average cost of 4.3 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**”) owned 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.

See “Electric System Litigation” for information related to IPA litigation.

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, 78.21%; and San Diego Gas & Electric Company (“**SDG&E**”), 20.00%. 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, 2009, SONGS provided 281,400 MWh of energy to the City at an average cost of 9.3 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 three-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 will require the replacements of SGs. The SG replacement for SONGS Unit 2 is currently scheduled to take place in the fall of 2009 and for SONGS Unit 3 in the fall of 2010. The estimated cost to replace the SGs is \$680 million, based on in 2004 dollars, 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 Anaheim 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 from its original 75.05% to 78.21% in Units 2 and 3 of SONGS.

The plant site easement for SONGS terminates on May 12, 2024. The easement would be extended if the operating licenses were extended. The plant must be decommissioned and the site restored by the time the easement terminates. In a study dated February 2009 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 \$3.658 billion, based on 2008 dollars. The City's share of such cost was estimated to be approximately \$65 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 \$59.1 million in its trust funds as of June 30, 2009.

Under federal law, the Department of Energy ("**DOE**") is responsible for selection and construction of a facility for the permanent disposal of spent nuclear fuel and high-level radioactive waste. The DOE did not meet its contractual obligations for acceptance of spent nuclear fuel by 1998, nor is it certain when or if the DOE will begin acceptance of spent nuclear fuel. In the interim, SCE has primary responsibility of storage of spent nuclear fuel generated at SONGS, and has thirty six Dry Shielded Canisters (DSC) stored with spent fuel for Units 1, 2

and 3. Six additional DSCs are in fabrication to be complete for loading spent fuel from Unit 3 in March 2010. Interim storage of DSC is located at SONGS.

Hoover Upgrading Project. Modern insulation technology has made it possible to “uprate” the nameplate capacity of existing generators. The Hoover Upgrading Project consists principally of the upgrading 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. Hoover is owned and operated by the United States Bureau of Reclamation, and power from the project is marketed by the Western Area Power Administration. 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. Due to the ongoing drought conditions and low lake levels, the City’s entitlement has been reduced to approximately 26.5 MW,

As of June 30, 2009, SCPPA had outstanding approximately \$15,975,000 principal amount of its bonds in connection with Hoover, of which the City’s portion is \$5,096,000. In the fiscal year ended June 30, 2009, Hoover provided 32,500 MWh of energy to the City at an average cost of 2.3 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 stem 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.

The City is currently engaged in discussions with other wholesale power purchasers of electric power from Hoover to renew the electric power purchase agreements beyond its current term of September 2017. The discussions are ongoing.

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 \$99,830,000 principal amount outstanding as of June 30, 2009, of which the City’s proportionate share is \$5,391,000. In the fiscal year ended June 30, 2009, PVNGS provided 97,700 MWh of energy to the City at an average cost of 5.1 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.

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) 1,311 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, 2009, Units 1, 2 and 3 operated at a capacity factor of 87.1%, 94.6%, and 82.6% respectively, and generated 10.0 million MWh, 10.1 million MWh and 9.5 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 \$157,200,000 at June 30, 2009. Based on the most

recent 2007 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 over funded. No assurance can be given, however, that such amount will be sufficient to fully fund SCPPA's share of decommissioning costs at license expiration and commencement of decommissioning activities. 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, 2009, 63 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 all low-level radioactive waste produced at PVNGS until the end of operations. This on-site storage facility remains fully available.

Springs Generating Station. 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 and to provide ancillary services in the CAISO markets. 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, 2009, Springs generated 3,250 MWh of electricity. The permit for the Springs does not establish an expiration date.

Riverside Energy Resource Center Units 1&2. 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 and to provide ancillary services in the CAISO markets. RERC operates at a more efficient heat rate, is expected to be more economic and will be used more frequently than the Springs facilities. For the fiscal year ended June 30, 2009, RERC generated 48,718 MWh of electricity. The permit for RERC does not establish an expiration date.

Riverside Energy Resource Center Units 3&4. In January 2007, Riverside's Public Utilities Board (PUB) conceptually approved the construction of Units 3 and 4 at the RERC, and pre-project work required for the development of the new generating units totaling 100 MW.

On June 1, 2007, PUB approved a Professional Services Agreement with Power Engineers for the environmental permitting, detailed engineering, procurement oversight, and construction oversight for the RERC Units 3&4. On February 25, 2009, the California Energy Commission granted the City a Small Power Plant Exemption License for the construction of Units 3& 4.

To date, PUB has approved the purchase of two gas combustion turbines, three gas compressors, two generator step-up transformers, power distribution center building, sixteen 69kV circuit breakers and four auxiliary transformers. On October 20, 2009, the City awarded a construction contract to ARB, Inc. in the amount of \$19,620,631. Construction is scheduled to be completed by the fourth quarter of 2010.

The total cost of the project is estimated to be \$110 million and City has issued Electric Revenue Bonds in 2008 to finance the majority of project costs.

Clearwater Cogeneration Facility The City is in final stages of acquiring Clearwater Cogeneration Facility (“**Clearwater**”) from the City of Corona, California. Clearwater consists of a single GE LM2500 combustion turbine generator operating in combined cycle with one RENTECH heat recovery steam generator, and one SHIN NIPPON steam turbine generator. The gross plant output of Clearwater is 29.5 MW. The Clearwater was financed using two separate Certificates of Participation issued by the City of Corona. Upon execution and closing of the transaction, the City will assume Corona’s annual debt obligations associated with Clearwater until the first call date of each issuance, upon which the City will pay Corona the principal amount of the outstanding debt related to construction of the Clearwater. The City, at its sole option, may escrow to call, the amount necessary to make future debt service payments until the first call date, and the amounts necessary to defease the outstanding bonds related to the Clearwater. ***It should be noted that this transaction is still subject to a number of conditions, including approval by the City Council of the City and the city council of Corona.***

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, 2009, the City purchased 406,023 MWh of energy through the Deseret Agreement at an average cost of 2.6 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 June 30, 2009 was \$1.7 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 CAISO. Unless otherwise extended, these power sales agreements will terminate on March 3, 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 \$1,285,000 and received 90,009 MWh of electricity during peak usage and returned 160,646 MWh of electricity to BPA during off peak periods for the fiscal year ended June 30, 2009.

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 to serve the City’s retail energy requirements 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. On December 9, 2008, the City Council unanimously approved the revised RPS.

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” in this Official Statement for additional discussion related to the RPS.

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. Due to unforeseen circumstances, Wintec extended the commencement of energy delivery of Facility II Wind Turbine Project to June 2010 with full energy delivery anticipated by December 2010. In the fiscal year ended June 30, 2009, the City purchased 4,441 MWh of energy at an average cost of 5.0 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 CAISO 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, 2009, the City purchased 180,329 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.

Shoshone Renaissance LLC Power Purchase Agreements. On June 19, 2008, the City and Shoshone Renaissance LLC (“**Shoshone**”) entered into a 30-year power purchase agreement (“**Shoshone PPA I**”) for 64 MW of geothermal energy to be generated from two 32-MW generating units to be built in proximity to Brigham City, Utah. The City will take delivery of the energy at Mona substation. The agreement gives termination rights to Shoshone if the financing of the project cannot be obtained within nine months of the effective date of the agreement. The agreement was amended on March 10, 2009 and on September 18, 2009 to provide additional time for Shoshone to obtain project financing given the current distressed and uncertain project financing environment. The anticipated commercial operation date is late 2011 assuming project financing takes place by no later than March 31, 2010. The annual cost under Shoshone PPA I is estimated to be approximately \$40 million.

On December 12, 2008, the City and Shoshone entered into a second 30-year power purchase agreement (“**Shoshone PPA II**”) for 32 MW of geothermal energy to be generated from a third 32-MW generating unit to be built in proximity to Brigham City, Utah. The agreement gives a similar termination right to Shoshone as in Shoshone PPA I if the financing of the project cannot be obtained within nine months of the effective date of the agreement. The agreement was amended on March 10, 2009 to provide additional time to Shoshone to obtain project financing. The anticipated commercial operation date is May 2013 assuming project financing takes place by no later than March 31, 2010. The annual cost under Shoshone PPA II is estimated to be approximately \$21 million.

Transmission under both agreements is anticipated to be through the City’s entitlements to the capacity of the Southern Transmission System (see discussion following) and contracts with the LADWP.

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 and the CAISO Integrated Forward Market (“**IFM**”) and real time market. These purchases are made under the Western Systems Power Pool Agreement, numerous bilateral agreements between the City and various suppliers, and under the FERC sanctioned CAISO Tariff. In fiscal year ending June 30, 2009, the City purchased 479,900MWh of firm energy (about 18.7% 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, firm purchases on the spot market and the CAISO markets. 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. On November 25, 2003, the City Council approved changes to the Power Resources Financial Risk Management and Counterparty Risk Management Policies. Such policies are currently under revision to incorporate changes in the California wholesale power markets.

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 June 30, 2009, SCPPA had outstanding approximately \$931,290,000 principal amount of its bonds, including refunding bonds, of which the City’s share is \$94,992,000, 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.

The STS is currently being upgraded by an additional 480 MW to accommodate increased renewable energy imports from Utah. The anticipated completion date of the STS upgrades is December 2010. The City's share and cost of the STS upgrade is approximately 49 MW and \$8.4 million and is being financed through SCPPA. Upon completion of the upgrade, the City's total entitlement in the STS will be 244 MW.

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**"). The Mead-Phoenix Transmission Project has been upgraded as of June 1, 2009 as part of the East of River 9300 Project. The City receives an additional 6 MW entitlement to Mead-Phoenix Transmission Project from the upgrade. The City's share of the cost of the upgrade was \$166,140. As of June 30, 2009, SCPPA had outstanding approximately \$63,510,000 principal amount of its bonds, including refunding bonds, of which the City's proportionate share is \$2,540,000, 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. This transfer to Startrans was complete on June 23, 2009. 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. The transfer to Startrans was complete on June 23, 2009. As of June 30, 2009, SCPA had outstanding approximately \$199,920,000 principal amount of its bonds, including refunding bonds, of which the City's proportionate share is \$26,989,000 to finance its interest in the Mead-Adelanto Transmission Project. The City has entered into a transmission service contract with SCPA 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. Riverside, relies 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 an interconnection agreement with SCE 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. SCE has performed a system impact study 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 CAISO has acknowledged the new substation as being a prudent addition to the overall system. The CAISO 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 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. The project is currently undergoing an environmental review as part of the California Environmental Quality Act process. On December 4, 2007, the City added a reliability charge to its electric rates for the purpose, among other things, of funding the City's portion of the cost of RTRP.

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 and subtransmission 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 CAISO 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, Azusa and Corona. Services include the scheduling of firm and non-firm energy from various sources, including the Western Systems Power Pool. Banning, Azusa and Corona share the cost of the City Electric System's Power Supply Operations Center.

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

Certain of the City's CAISO-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 CAISO 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 CAISO, entitling the City to receive compensation for the use of its transmission entitlements committed to the CAISO'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 CAISO. 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 disposed 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 CAISO'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 CAISO'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 CAISO 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.

On May 6, 2009, the City filed a new TRR with the FERC, updating its costs requested for recovery under the CAISO Transmission Access Charge from all grid users.

As noted above, the City obtains all of its transmission requirements from the CAISO. In addition, the City received certain transmission congestion hedging rights ("Firm Transmission Rights") granted to the City, at no cost, with respect to the CAISO-Transferred Entitlements upon becoming a PTO. As a result, the City will retain certain scheduling priority rights in the CAISO's day-ahead market when the CAISO predicts that congestion will occur across the CAISO-Transferred Entitlements. With the launch of the CAISO Market Redesign and Technology Upgrade ("**MRTU**") on April 1, 2009, these rights became Converted Rights ("**CVRs**"), and are only in effect until December 31, 2010. The City's CVRs currently, and prospectively, do not cover all of the transmission necessary to serve the City's customers. With the launch of the MRTU, the CAISO also implemented a Congestion Revenue Rights ("**CRR**") allocation and auction process. The City participates in the CRR allocation and auction processes to obtain the additional transmission congestion hedging rights to fully cover all of the transmission necessary to deliver the City's contractual generation entitlements to serve the City's customers.

The City has been participating in the CAISO's transmission congestion FTR and/or CRR 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 transmission congestion hedging rights, and has recovered more than this amount in avoided congestion expenses. The City cannot predict whether the amounts previously spent will be sufficient in the new MRTU markets.

Customers and Energy Sales

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

NUMBER OF METERED CUSTOMERS

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Domestic	92,914	93,607	94,232	94,691	95,214
Commercial	10,060	10,038	10,063	10,258	10,178
Industrial	344	496	837	978	904
Other	145	153	94	88	89
Total - all classes	<u>103,463</u>	<u>104,294</u>	<u>105,226</u>	<u>106,015</u>	<u>106,385</u>

ENERGY SOLD (Millions of kWh)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Domestic	675	697	748	734	733
Commercial	530	474	456	441	433
Industrial	707	810	924	960	946
Wholesale Sales	470	321	295	357	309
Other	50	57	39	34	33
Total kWh Sold ⁽¹⁾	<u>2,432</u>	<u>2,359</u>	<u>2,462</u>	<u>2,526</u>	<u>2,454</u>

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

Customer Concentration

The following table limits the Electric System's top 10 customers for fiscal year 2008-09 by type of business.

TOP 10 ELECTRIC CUSTOMERS Fiscal Year 2008-09

<u>Electric Customer</u>	<u>Electric Charges</u>	<u>Percent of Total Electric Revenues</u>
Local University	\$ 7,805,664	2.85 %
Local Government	7,481,477	2.73
Local Government	6,184,476	2.26
Local School District	4,351,162	1.59
Grocery Store	3,251,002	1.19
Corporation	2,323,394	0.85
Shopping Mall	1,952,604	0.71
Hospital	1,943,163	0.71
Corporation	1,768,410	0.65
Hospital	<u>1,762,868</u>	<u>0.64</u>
Total	<u>\$ 38,824,220</u>	<u>14.18 %</u>

Many of the Electric System's industrial customers have loads under 500 kW. The Electric System's two largest customers provided approximately 2.85% and 2.73% of its revenues, respectively, for the fiscal year ended June 30, 2009. The Electric System's commercial and industrial customer base, comprising its five largest customers, provided approximately 10.6% of revenues for the fiscal year ended June 30, 2009. No other customer of the Electric System provided more than 1.0% of its revenues for the fiscal year ended June 30, 2009.

Billings and Collections

Residential and commercial customers are billed monthly. Bills are due and payable on presentation, and become delinquent after 21 days. Although the utility is not subject to the general jurisdiction of the CPUC or other agencies, collection activities for the City substantially conform with the requirements of the California Public Utilities Code Section 10010. After a bill is delinquent, a computer generated Urgent Notice is mailed allowing an additional 13 days to pay. If no payment is received, a 24-hour notice is delivered by Utility Field Service staff. The customer is charged a \$20 fee. If payment is not received within the specified date on the 48 hour notice, the City may disconnect electric service approximately 5 days later. Before service is reinstated, the customer must pay the delinquent amount, pay a reconnection fee ranging between \$40 and \$75, and may be required to pay a customer deposit.

Uncollectible Accounts

Based on the average amounts for the past five years, the City experienced less than 0.28% of uncollectible accounts, representing approximately \$704,400 of total billable revenue (\$241.4M). The following table shows the historical results of the utility's accounts receivable and collection efforts:

HISTORY OF BILLINGS AND COLLECTIONS As of June 30, (Dollars in Thousands)

Fiscal Year	Billings	Payments	Write-Off as % of Billing	Write-Off	Ending Accounts Receivable Balance ⁽¹⁾
2009	\$ 276,479	\$ 278,201	0.561%	\$ 1,550	\$27,630
2008	261,361	257,664	0.324	846	30,902
2007	241,271	237,926	0.159	383	28,021
2006	219,196	216,340	0.152	334	25,059
2005 ⁽¹⁾	207,039	205,062	0.198	409	22,537

(1) The ending accounts receivable balance of any fiscal year is equal to the ending balance of the previous fiscal year plus billings minus payments minus write-offs. The ending accounts receivable balance at June 30, 2004 was \$20,969.

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 general regulatory jurisdiction of the CPUC or by any other state agency. The California Public Utilities Code contains certain provisions affecting all municipal utilities such as the City, including provisions for a public benefits charge. At this time, neither the CPUC nor any regulatory authority of the state nor FERC approves the City's retail electric rates, although FERC does approve the City's TRR included in the CAISO Transmission Access Charge collected from users of the CAISO transmission grid.

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.

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 phased in and 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

<u>Effective Date</u>	<u>Overall System</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial⁽³⁾</u>
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

During fiscal years 2008-09, the City prepared an Electric System Capital Improvement Program for the fiscal years ending June 30, 2010 through June 30, 2014 (the "**Capital Improvement Program**"). The total cost of the Capital Improvement Program over those five years is estimated to be \$333 million, of which over \$294 million is expected to be financed with bond proceeds, including the net proceeds of the 2008D Bonds (of which approximately \$120 million remains), and proceeds of future bond issues.

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 simple-cycle, natural gas-fired, peaking units at the Riverside Energy Resource Center (Units 3&4) for \$110 million, adjacent to Units 1&2, that will help the City's customers to avoid "rolling blackouts" on peak days.

The 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 will extend the life of the plant through the term of the current operating lease in 2002 and possibly 2042 if SCE's application with the Nuclear Regulatory Commission for license extension is successful, additional funding for the RTRP, a 230-69 kV transmission substation as a second point of interconnection to the California transmission grid, located within the City which will reduce the City's dependence on SCE's Vista substation for supply of electric energy, 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, 69kV sub-transmission line rebuilds and new construction projects, 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, upgrades to the City's supervisory control and data acquisition system, major street light projects, and improvements to the City's 40 MW simple-cycle combustion turbines (defined as the "**Springs**" in this Official Statement), and RERC facilities.

The City has not updated its Capital Improvement Program since fiscal year 2008-09. The City is aware that, since adoption of the Capital Improvement Program, construction costs have generally declined as a result of the economic downturn, and, consequently, the City anticipates that the total cost of the Capital Improvement Program may also decline.

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 \$1 billion subject to a \$250,000 deductible for electric generating facilities and \$50,000 for all other structures and facilities. All properties valued at over \$50,000 are insured at full replacement value based on periodic appraisals and annual Marshall Swift trend factor 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 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.

The City has not committed to maintain earthquake insurance on any of the facilities of the Electric System.

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, an event occurred at the Crandall Canyon Mine (of which IPA has a 50% ownership interest) in Emery County, Utah that trapped six underground miners. Extensive efforts to rescue the six trapped miners were not successful and resulted in the death of three rescuers and injuries to six rescuers. The Mine Safety and Health Administration (“**MSHA**”) immediately halted the rescue efforts. MSHA thereafter determined that conditions were too dangerous to continue the rescue efforts thereby preventing the recovery of the six trapped miners.

Representatives of the six trapped miners, the three deceased rescuers and a miner who committed suicide in April 2008 along with five of the injured rescuers have filed three separate cases in the state courts of Utah naming a number of defendants including IPA as defendants (the “**Lawsuits**”). IPA is participating in ongoing settlement negotiations with the plaintiffs in the Lawsuits.

Events at the Crandall Canyon Mine have resulted in investigations by federal and state agencies and the United States Congress. To date such investigations have not alleged any wrongdoing on the part of IPA but the investigations are ongoing and no evaluation can presently be made as to the final outcome of the investigations. In the opinion of the City, any ultimate liability which may arise from any related investigations is not expected to materially impact the City’s financial position, results of operations or cash flows.

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**”). The Intermountain Power Project Unit Three Development Agreement, dated as of May 1, 2005, was entered into among the development participants set forth therein and the IPA, as development manager. The City is not a signatory to such agreement. 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.

Dairy Cow Litigation. In 2002 and 2003, LADWP received a number of claims from dairies and dairy farmers located in Utah and California. The claims generally allege that since 1987, “stray voltage” emitted from the IPP facilities through the ground and ground water damaged dairy herds, including causing higher than normal death rates, a reduction in milk production and an impairment to the cows’ immune systems. LADWP, as operating agent for IPA, denied all of the claims.

In February 2005, claimants filed a lawsuit in the Utah state court, entitled *Gunn Hill Dairy Properties, LLC, et al. v. Los Angeles Department of Power, et al.*, Case No. 050700157, naming SCPPA (the entity financing the STS facilities), LADWP (the operator of the STS facilities), the IPA (the owners of the STS facilities), and others as defendants (the “Utah Dairy Case”). The Utah plaintiffs seek \$100,000,000 in special damages and a like amount in general damages. The trial court has dismissed certain claims in the complaint with prejudice and certain other claims without prejudice. In September 2008, the court issued rulings on certain other pending motions, including granting a motion of SCPPA, LADWP and IPA to dismiss all claims of punitive damages as against those entities, dismissing the claims of one plaintiff, dismissing one other cause of action as against SCPPA, LADWP and IPA, and denying certain other motions without prejudice.

In June 2009, the court held a five-day evidentiary hearing on motions by SCPPA, LADWP and IPA to exclude the testimony of Plaintiffs' experts. On August 4, 2009, the court ruled that it would permit Plaintiffs' electrical experts to testify, but would exclude all testimony of Plaintiffs' only veterinary witness. Because the court has strongly suggested in prior rulings that Plaintiffs must have expert veterinary testimony to proceed, SCPPA, LADWP and IPA are preparing motions to dismiss the case. The outcome of those efforts cannot be predicted.

If the court declines to dismiss the case, trial dates will be set, with several possible trials to occur, the first to include six dairies as chosen by the parties.

Electrical tests performed by LADWP's experts reveal no current or voltage attributable to the IPP facilities on the Utah plaintiffs' farms and SCPPA, LADWP, and IPA believe that their claims are without merit. In the event that damages are awarded to the Utah plaintiffs against IPA, any part of the award not otherwise covered by insurance may be apportioned among utilities that purchase IPP capacity in accordance with their entitlement shares.

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 San Diego Gas & Electric Company ("**SDG&E**"), and together with the California Electricity Oversight Board, the California Attorney General, PG&E, SCE and SDG&E, the "**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 claims against the City arising from its sales during the energy crisis. FERC approved the settlement agreement on June 4, 2008. 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 to date has been a receipt by the City of approximately \$3.7 million. Under the settlement, the City may receive additional distributions of refunds from other sellers. The City also may be responsible for paying its allocated portion (as determined by FERC) of payments due to other sellers for any Emissions Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by the City.

FERC Amendment 60 Litigation. On May 11, 2004, the CAISO 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."

Transmission Revenue Requirement Settlement and Litigation Proceedings. On May 6 and July 2, 2009, the City filed a Petition for a Declaratory Order seeking approval of a revised Transmission Owner ("TO") Tariff. The revised TO Tariff reflected modifications to the currently-effective Tariff to (i) increase the City's high voltage base transmission revenue requirement ("TRR") associated with transmission facilities and contractual entitlements to transmission capacity that have been placed under the operational control of California's transmission system operator, the CAISO from \$17,500,000 to \$22,657,299; (ii) adopt a new ratemaking treatment for the City's transmission entitlements under agreements with SCE; and (iii) incorporate additional ministerial changes. Several parties filed motions to intervene and protests or comments in response to the City's Petition. On August 28, 2009, the Commission accepted the revised TO Tariff for filing effective July 1, 2009, initiated a hearing for the purpose of determining if the Tariff revisions as proposed by the City are just and reasonable under the Federal Power Act, and suspended the hearing pending the outcome of settlement discussions administered by a FERC Administrative Law Judge. Settlement discussions are ongoing at this time. If a settlement is reached, the City may be obligated to pay to the CAISO refunds calculated based upon the difference between the City's proposed TRR and the TRR level agreed to in settlement plus interest effective July 1, 2009. If a settlement is not reached and the TO Tariff modifications are litigated before FERC, the City may be obligated to pay to the CAISO refunds to the extent that its revised TRR is reduced through litigation. Due to uncertainties inherent in the litigation process, it is impossible to estimate the level of refunds that may be required.

FINANCIAL RESULTS OF THE ELECTRIC SYSTEM

Revenues

Gross operating revenues from the sale of electricity and transmission increased from approximately \$240.7 million in the fiscal year ended June 30, 2005, to approximately \$301.9 million in the fiscal year ended June 30, 2009, an increase of \$61.2 million or 25.4%. For the same period, retail sales to customers increased approximately \$68.5 million or 33.4%, from \$205.3 million to \$273.8 million for the fiscal year ended June 30, 2009. The following table sets forth such electric sales during the periods shown.

REVENUES FROM SALES OF ELECTRICITY (In Thousands)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Domestic	\$ 79,786	\$ 85,243	\$ 94,426	\$99,981	\$105,525
Commercial	59,998	53,773	55,421	60,768	65,532
Industrial	59,157	71,084	83,698	92,697	97,100
Other	6,337	7,139	5,713	5,425	5,684
Wholesale Sales	15,249	11,952	9,913	14,805	9,400
Transmission Revenue	<u>20,213</u>	<u>20,043</u>	<u>20,097</u>	<u>19,211</u>	<u>18,673</u>
Total	<u>\$240,740</u>	<u>\$249,234</u>	<u>\$269,268</u>	<u>292,887</u>	<u>301,914</u>

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)

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Domestic	11.8	12.2	12.6	13.6	14.4
Commercial	11.3	11.3	12.1	13.8	15.1
Industrial	8.4	8.8	9.1	9.7	10.3
Other	12.8	12.4	14.5	16.1	17.2
Average - All Classes Combined	10.5	10.7	11.0	11.9	12.8

Operating Expenses

For the period ending June 30, 2009, the total operating expenses of the Electric System were \$207.6 million excluding depreciation.

Operating expenses (excluding depreciation) increased from \$164.2 million in the fiscal year ended June 30, 2005 to \$207.6 million in the fiscal year ended June 30, 2009, an increase of \$43.4 million or 26.4%. With the exception of power supply costs (including purchased power and transmission expenses), overall distribution operating expenses increased from \$26.6 million for fiscal year ended June 30, 2005 to \$38.8 million for fiscal year ended June 30, 2009, an increase of \$12.2 million or 45.9%. Purchased power and transmission costs, net of wholesale sales and transmission revenues, increased from \$102.1 million for the fiscal year ended June 30, 2005 to \$140.8 million for the fiscal year ended June 30, 2009, an increase of \$38.7 million or 37.9%. Purchased power expenses for fiscal years 2004-05 through 2008-09

include the costs for PVNGS, the IPP Generating Station, Hoover, 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.

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 June 30, 2009 (Dollars in Thousands)

	<u>Principal Amount of Outstanding Debt</u>	<u>City Participation</u> ⁽¹⁾	<u>City Share of Outstanding Debt</u> ⁽²⁾
Intermountain Power Agency			
Intermountain Power Project ⁽³⁾	\$2,394,422 ⁽⁴⁾	7.617%	\$182,383
Southern California Public Power Authority			
Palo Verde Nuclear Generating Station	99,830	5.400	5,391
STS	931,290	10.200	94,992
Hoover Dam Upgrading	15,975	31.900	5,096
Mead-Phoenix Transmission	63,510	4.000	2,540
Mead-Adelanto Transmission	199,920	13.500	26,989
Total	<u>\$3,704,947</u>		<u>\$317,391</u>

⁽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⁾ Includes certain unamortized refunding charges. See “THE ELECTRIC SYSTEM - Power Supply - Intermountain Power Project.”

For the fiscal year ending June 30, 2010, the City’s obligations for debt service on its joint powers agency obligations will aggregate approximately \$30.5 million. Debt service on joint powers agency obligations is expected to increase to a high of approximately \$38.1 million in fiscal year 2011, but is expected to decline to approximately \$3.6 million in fiscal year 2026. 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 June 30, 2009, approximately 22.70% 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.

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, as approved by the voters and adopted by the City Council on November 15, 1977. 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, 2009 were \$29.6 million, equal to approximately 10.5% of the prior fiscal year's Gross Operating Revenues, and includes an additional \$5.0 million to help fund the Riverside Renaissance and \$.0.9 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 preliminary budgeted transfer to the General Fund of the City for the fiscal year ending June 30, 2010 is \$32.6 million, equal to approximately 11.5% of the prior fiscal year's Gross Operating Revenues, and includes \$0.9 million as the City's portion of the Department's Transmission Revenue Requirement as a result of becoming a Participating Transmission Owner. See "ELECTRIC SYSTEM STRATEGIC PLAN - Operating Cost Reductions and Competitive Transition Account / Reserves."

In general, California law (Government Code § 50076) provides that any fee that exceeds the reasonable cost of providing the service or regulatory activity for which the fee is charged and which is levied for general revenue purposes is a special tax. To the City's knowledge, no California appellate court has considered whether payments by an electric utility like the transfers to the General Fund are a cost of providing the related service. As of the date of this Official Statement, no claim has been filed with the City regarding the legality of including the General Fund transfer as a cost of providing the related services and no litigation has been threatened.

The statute of limitations for filing a claim is one year from the date that the City collected the electric revenues that were used to make the General Fund transfer. Further, under the court's holding in *Ardon v City of Los Angeles*, 174 Cal.App.4th 369 (2009) (under review), class claims are not permitted in local tax refund cases. The Court recognized the need for fiscal predictability and strict legislative control over refund claims at the local as well as State level and held that constitutional protections apply to general as well as specific claiming statutes, including the Government Claims Act, thus protecting tax refund claims asserted against local agencies.

If a court were to conclude that the General Fund transfer is not a cost of providing the service of the Electric System, then the Electric System might be required to revise its rates and charges to eliminate the revenues needed to pay the General Fund transfer, and the Electric System could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. In such an event, the Electric System most likely would require the City to return the challenged General Fund transfer and the Electric System would be prohibited

from making any future General Fund transfers. The General Fund transfer was \$29,583,000 in fiscal year 2008-09.

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.

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 were \$101.5 million at June 30, 2009. These funds are available for current operations, or other strategic purposes upon approval of the Board and the City Council.

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 2004-05 through 2008-09.

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

	<u>Fiscal Year Ended June 30,</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Operating Revenues:					
Residential	\$ 79,786	\$ 85,243	\$ 94,426	\$99,981	\$105,525
Commercial and Industrial and Other	125,492	131,996	144,832	158,890	168,316
Wholesale Sales	15,249	11,952	9,913	14,805	9,400
Transmission Revenue ⁽²⁾	20,213	20,043	20,097	19,211	18,673
Other	<u>3,060</u>	<u>2,844</u>	<u>2,385</u>	<u>4,467</u>	<u>3,982</u>
Total Operating Revenues Before (Reserve) / Recovery	243,800	252,078	271,653	297,354	305,896
Reserve for Uncollectible, Net of (Reserve) / Recovery	<u>(752)</u>	<u>(371)</u>	<u>(600)</u>	<u>(1,751)</u>	<u>(1,543)</u>
Total Operating Revenues, Net of (Reserve) / Recovery	243,048	251,707	271,053	295,603	304,353
Interest Income	5,183	7,269	11,118	16,380	17,625
Capital Contributions	12,864	4,866	6,262	1,084	1,494
Non-Operating Revenues	<u>1,255</u>	<u>1,244</u>	<u>1,351</u>	<u>1,666</u>	<u>1,702</u>
Total Revenues	<u>\$262,350</u>	<u>\$265,086</u>	<u>\$289,784</u>	<u>\$314,733</u>	<u>\$325,174</u>
Operating Expenses:					
Nuclear Production	\$ 11,965	\$ 12,046	\$ 12,689	\$13,999	\$15,944
Purchased Power	97,220	112,941	112,834	133,016	120,255
Transmission Expenses	28,348	29,520	29,902	31,288	32,677
Distribution Expenses	8,398	8,796	11,040	11,943	12,660
Customer Account Expenses	5,828	6,529	7,424	9,080	7,585
Customer Service Expenses	804	749	917	1,295	1,235
Administration & General Expenses	4,824	6,515	6,403	10,537	7,087
Clearing & Miscellaneous Expenses	<u>6,772</u>	<u>7,325</u>	<u>6,491</u>	<u>8,522</u>	<u>10,188</u>
Total Expenses ⁽³⁾	<u>\$164,159</u>	<u>\$184,421</u>	<u>\$187,700</u>	<u>\$219,680</u>	<u>\$207,631</u>
Net Operating Revenues Available for Debt Service And Depreciation	\$ 98,191	\$ 80,665	\$102,084	\$95,053	\$117,543
Debt Service Requirements on Bonds	\$ 26,698	\$ 30,260	\$ 33,015	\$36,250	\$45,286
Debt Service Coverage Ratio	3.68x	2.67x	3.09x	2.62x	2.60x

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

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

⁽³⁾ Does not include contributions to City's General Fund of \$18,572,000, \$22,037,000, \$27,393,000, \$27,371,000, and \$29,583,000 for fiscal years 2004-05 through 2008-09, respectively.

Audited Balance Sheets and Related Statements

The following table presents summaries of financial data relating to the Electric System for fiscal years 2004-05 through 2008-09. The data is extracted from the City's Electric Utility Audited Balance Sheets and Related Statements for such fiscal years. See "FINANCIAL STATEMENTS" below.

ELECTRIC FUND BALANCE SHEET (In Thousands)

	Fiscal Year Ended June 30,				
	2005	206	207	2008	2009
ASSETS					
Utility plant:					
Production	\$178,505	\$255,431	\$257,980	\$262,563	266,470
Transmission	20,418	26,082	26,522	26,972	27,544
Distribution	279,106	327,685	341,836	393,919	426,515
General	<u>22,588</u>	<u>27,210</u>	<u>28,154</u>	<u>28,623</u>	<u>38,752</u>
	500,617	636,408	654,492	712,077	759,281
Less accumulated depreciation	<u>(230,327)</u>	<u>(246,514)</u>	<u>(266,137)</u>	<u>(287,123)</u>	<u>(307,199)</u>
	270,290	389,894	388,355	424,954	452,082
Construction in progress	95,988	26,790	54,663	69,746	102,234
Land ⁽¹⁾	6,848	7,040 ⁽¹⁾	7,049	7,149	7,612
Nuclear fuel, at amortized cost	<u>2,397</u>	<u>3,129</u>	<u>2,645</u>	<u>3,595</u>	<u>3,966</u>
Total utility plant	<u>375,523</u>	<u>426,853</u>	<u>452,712</u>	<u>505,444</u>	<u>565,894</u>
Restricted assets ⁽²⁾	<u>115,072</u>	<u>147,248</u>	<u>136,034</u>	<u>301,612</u>	<u>252,029</u>
Current assets:					
Cash and investments ⁽³⁾	88,292	99,368	105,388	78,687	134,883
Accounts receivable, net	33,968	32,169	39,708	40,661	38,010
Accrued interest receivable	941	1,317	1,311	2,794	745
Advances to City	0	0	0	1,780	0
Prepaid expenses	6,628	6,551	6,430	7,010	6,224
Nuclear materials inventory	<u>1,311</u>	<u>1,375</u>	<u>1,535</u>	<u>1,921</u>	<u>1,750</u>
Total current assets	<u>131,140</u>	<u>140,780</u>	<u>154,372</u>	<u>132,853</u>	<u>181,612</u>
Other non-current assets:					
Advances to City	0	0	0	37,724	5,918
Deferred pension costs	13,690	13,657	13,570	13,439	13,260
Deferred purchased power	15,034	11,692	8,352	5,011	1,670
Deferred bond issuance / refunding costs	<u>11,291</u>	<u>6,353</u> ⁽⁴⁾	<u>5,748</u> ⁽⁴⁾	<u>8,183</u> ⁽⁴⁾	<u>7,523</u> ⁽⁴⁾
Total other non-current assets	<u>40,015</u>	<u>31,702</u>	<u>27,670</u>	<u>64,357</u>	<u>28,371</u>
Total assets	<u>\$661,750</u>	<u>\$746,583</u>	<u>\$770,788</u>	<u>\$1,004,266</u>	<u>\$1,027,906</u>
EQUITY AND LIABILITIES					
Equity:					
Invested in capital assets, net of related debt	\$ 97,207	\$107,969	\$162,384 ⁽⁵⁾	\$181,966 ⁽⁵⁾	\$204,902 ⁽⁵⁾
Restricted for debt service	34,383	46,521	17,051	18,981	20,477
Public Benefit Programs	4,732	5,259	8,344	8,910	8,125
Unrestricted	<u>118,880</u>	<u>123,854</u>	<u>137,708</u>	<u>146,440</u>	<u>164,762</u>
Total equity	255,202	283,603	325,487	356,297	398,266
Long-term obligations, less current portion	<u>306,144</u>	<u>354,699</u> ⁽⁴⁾	<u>334,751</u> ⁽⁴⁾	<u>528,030</u> ⁽⁴⁾	<u>506,208</u> ⁽⁴⁾
Total equity and long-term obligations	<u>561,346</u>	<u>638,302</u>	<u>660,238</u>	<u>884,327</u>	<u>904,474</u>
Non-current liabilities:					
Capital leases payable	0	0	0	0	2,073
Pension obligation	13,690	13,534	13,390	13,206	12,979
Nuclear decommissioning liability	44,030	47,079	50,606	54,523	59,072
Postemployment benefits payable	0	0	0	605	1,229
Arbitrage Liability	<u>0</u>	<u>0</u>	<u>927</u>	<u>0</u>	<u>0</u>
Total non-current liabilities	<u>57,720</u>	<u>60,613</u>	<u>64,923</u>	<u>68,334</u>	<u>75,353</u>
Current liabilities payable from Restricted assets:					
Accrued interest payable	2,678	2,024	1,851	2,801	4,454
Deferred revenue-public benefit programs	108	240	180	233	888
Current portion of long-term obligations	<u>15,015</u>	<u>18,815</u>	<u>19,460</u>	<u>20,345</u>	<u>21,300</u>
Total current liabilities payable from restricted assets	<u>17,801</u>	<u>21,079</u>	<u>21,491</u>	<u>23,379</u>	<u>26,642</u>
Current liabilities:					
Accounts payable	17,576	18,512	15,614	18,905	13,933
Other liabilities	<u>7,307</u>	<u>8,077</u>	<u>8,522</u>	<u>9,321</u>	<u>7,504</u>
Total current liabilities	<u>24,883</u>	<u>26,589</u>	<u>24,136</u>	<u>28,226</u>	<u>21,437</u>
Total equity and liabilities	<u>\$661,750</u>	<u>\$746,583</u>	<u>\$770,788</u>	<u>\$1,004,266</u>	<u>\$1,027,906</u>

(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. For comparison purposes, fiscal year ended June 30, 2006 was adjusted.

(5) Beginning in fiscal year ended June 30, 2008, a change was made to reclassify an amount equal to the bond reserves held with fiscal agent from Restricted for debt service to Invested in capital assets, net of related debt. For comparison purposes, fiscal year ended June 30, 2007 was adjusted.

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: *“The City of Riverside Public Utilities Department is committed to the highest quality water and electric services at the lowest possible rates to benefit the community.”*

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 July 11, 2008, the Riverside Board held a workshop to update the Ten Year Goals. As a result, the Riverside Board adopted the following (not in priority order) goals:

- Be recognized locally and nationally as the leader in clean energy and conservation
- Enhance and protect the financial health of Riverside Public Utilities
- Effectively protect and advocate Riverside Public Utilities interest in legislative and regulatory forums
- Become water independent
- Achieve a superior level of customer satisfaction and awareness that Riverside Public Utilities is owned by the customers it serves

In order to more expediently attain the Ten Year Goals, the Riverside Board has also adopted Three Year Strategic Goals and Objectives. 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. At the most recent management meeting, the following Three Year Strategic Goals and Objectives were developed and subsequently approved by the Riverside Board on September 18, 2009:

- Protect the financial health of Riverside Public Utilities
- Increase system reliability in electric and water
- Increase awareness of Riverside Public Utilities as a leader in utility and environmental stewardship
- Impact positively legislation and regulations at all levels of government
- Build and implement an independent IT Division in Riverside Public Utilities to meet the Department’s specialized utility industry needs

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 June 30, 2009, the City's single family residential customers with an monthly average summer consumption of 1,058 kWh would pay an average of 29% higher rates if served by SCE, while single family residential customers with a winter consumption of 648 kWh would pay an average of 2% more if served by SCE. Although SCE has announced estimated increases of approximately 7-14% increase to residential customers, this hasn't been approved by the CPUC and 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 was below the maximum authorized by the City Charter. As of fiscal year 2010, the City increased the General Fund Transfer from 9% to 11.5%, 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 \$101.5 million as of June 30, 2009.

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." 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, economic development efforts have been suspended pending the completion of certain system reliability upgrades which are expected to take several years to complete.

Power Resource Portfolio Management

The City manages long-term fuel and power supply risk, renewable resource procurement and compliance with potential state and federal greenhouse gas legislation in an integrated fashion. The 2008 Power Supply Integrated Resource Plan (“IRP”) defines the City’s risk based long-term plan for providing stable and predictable rates for customers through the procurement of new energy supply sources at reasonable prices.

The City updated its IRP in 2008 and published the approved plan in early 2009. The IRP provides for a future resource portfolio with a higher reliance on renewable resources, especially geothermal resources, City owned lower-carbon emitting natural gas generation and an increased emphasis on demand side management programs. The resource portfolio selection derived from the IRP incorporated the MRTU impacts as a result of implementation by the CAISO. The IRP resource plan will provide 126 megawatts of additional City owned natural gas fired generation by mid-2011 that will allow the City to meet its local capacity requirement imposed by the CAISO while minimizing environmental impact and cost exposure. This natural gas generation is comprised of the 28 megawatt Clearwater Power Plant and the 98 megawatt expansion at the Riverside Energy Resource Center (“RERC”). By 2013, the City will add an additional 96 megawatts of geothermal generation that will allow the City to meet its 2020 goal of having 33% of the retail electricity energy needs met by renewable resources. The City will have a higher reliance on natural gas as fuel in the future and will manage the price and supply risk over a 24-month horizon with hedging contracts using various energy suppliers who have at least an investment grade credit rating.

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 CAISO, 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 CAISO 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 CAISO 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” for a discussion of the City’s settlement of claims related to the Cal PX bankruptcy and the CAISO 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 raised 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 CAISO. In mid-January 2001, the Cal PX discontinued operations and filed for bankruptcy protection. Also, wholesale sales to the CAISO largely ceased due to the City’s creditworthiness concerns relating to others participating in the CAISO’s markets, except for sales to the CAISO 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 owed to the City by the Cal PX and the CAISO have now been settled (see previous discussion in “THE ELECTRIC SYSTEM – Electric System Litigation - *California Energy Crisis Litigation*” above).

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” for a discussion of the City’s settlement of claims related to the Cal PX bankruptcy and the CAISO 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. Prior to the current fiscal year, there had 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 CAISO, as directed by the FERC, has undertaken an initiative called Market Redesign and Technology Upgrade (“**MRTU**”), to implement a new day-ahead wholesale electricity market and to improve electricity grid management reliability, operational efficiencies and related technology infrastructure. After several delays, the CAISO launched the MRTU on April 1, 2009. The City participated extensively in the testing and market simulations of MRTU system functionalities prior to MRTU’s launch. The redesigned California energy market under MRTU includes the following new features among others:

- 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 CAISO-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 power and mitigation rules and procedures.

The CAISO implementation of MRTU to restructure California’s wholesale electric market presents both opportunities and risks to the City and is expected to 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 CAISO-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 CAISO or the FERC; (iv) either the CAISO’s or the City’s MRTU-related systems and software do not perform as intended; (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; (vi) opportunities to sell excess generating capacity into the CAISO markets as ancillary services for additional revenues and (vii) economically bid City’s resources into the CAISO markets to minimize dispatch costs and/or generate additional revenues from excess energy sales. MRTU is expected to add significant market complexity. The City is vigilant in monitoring the market outcomes in the MRTU and continues active participation in the new market initiatives and will continue to implement changes to the appropriate systems, software and market strategies in the MRTU.

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 CO₂ 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 long-term contracts or financial commitments 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 (now the 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 retail energy requirements 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. On December 9, 2008, the City Council adopted a revised RPU of obtaining 20% 2010, 25% by 2015, and at least 33% by 2020 or the City's retail energy needs from renewable energy sources.

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 ("**WREGIS**"), which is expected to ensure the integrity of renewable energy certificates and prevent the double counting of the certificates. Riverside has participated in WREGIS activities and is ensuring its resources are registered and verified through the WREGIS reporting system.

On September 15, 2009, Governor Schwarzenegger signed Executive Order S-21-09 directing the California ARB to adopt regulations increasing California's RPS to 33% by 2020; the regulations must be adopted by July 31, 2010.

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 1.3 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 \$25,000 incentive cap for residential and a \$50,000 incentive cap for 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 CAISO 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, restructuring of the wholesale energy markets under MRTU, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the City's revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Electric System.

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 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" 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 55 NERC Reliability Standards. In August 2008, the City Council adopted an Internal 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 any of the requirements range from \$1,000 to \$1 million per violation per day. In August 2009, the City participated in a Western Electricity Coordinating Council Off-Site Audit and did not receive any New Possible Violations which could have been discovered during the audit. Furthermore, the City does not have any Outstanding Violations previously identified, typically by Self-Report or from the results of a Self-Certification Spot Check. Although the City is subject to the ongoing self certifications, and could, at any time, receive a Spot Check Audit, the City does not anticipate another Off Site Audit for the next six years.

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 (r) the effects of current economic conditions on the availability and creditworthiness of counterparties and the resulting effects on liquidity in the power and fuel markets, (s) governmental, statutory, regulatory, or administrative changes or initiatives affecting the electricity industry, (t) environmental laws and regulations—both state and federal—or changes in the application of those laws that could impact the cost and manner of doing business and (u) 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 2009A Bonds should obtain and review such information.

RISK FACTORS

The purchase of the 2009A Bonds involves investment risk. Such risk factors include, but are not limited to, the following matters.

2009A Bonds Are Limited Obligations

The general fund of the City is not liable for the payment of debt service on the 2009A Bonds, nor is the credit or taxing power of the City pledged for the payment of debt service on the 2009A Bonds. No owner of any 2009A 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 the 2009A 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 2009A Bonds under the Resolution.

Limitations on Remedies

The enforceability of the rights and remedies of the owners of the 2009A 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 2009A 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.

No Debt Service Reserve Account

Under the Resolution, the City may, but is not required to, establish a separate reserve account for a Series of Bonds. The City is not funding a reserve account for the 2009A Bonds. The owners of the 2009A Bonds will not be entitled to amounts on deposit in the Reserve Accounts established for other series of Bonds.

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's Electric System 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 as 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 increases in the costs of wholesale power could result in the need to increase retail rates for electric energy.

Market Manipulation. The CAISO, 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. CAISO tariffs, protocols and regulations are intended, among other things, to prevent manipulation of the CAISO's transmission system. The CAISO 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 or 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, CAISO'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 2009A 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” 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.

See "FINANCIAL RESULTS OF THE ELECTRIC SYSTEM – Transfers to the General Fund of the City" for a discussion of certain legal issues relating to the Electric System's general fund transfers to the City's General Fund.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," interest with respect to the 2009A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the 2009A Bonds as a result of future acts or omissions of the City in violation of certain covenants contained in the Resolution. Should such an event of taxability occur, the 2009A 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.

Risks Relating to the 2008 Reimbursement Agreement

The letters of credit issued by Bank of America, N.A. issued with respect to the 2008A Bonds, the 2008B Bonds and the 2008C Bonds (collectively, the "**2008 Letters of Credit**") have scheduled termination dates of April 29, 2011. If the City were to fail to renew or provide a substitute for one or more of the 2008 Letters of Credit prior to their termination date, the related bonds would be subject to purchase by Bank of America, N.A. and the City would be obligated to repay Bank of America, N.A. over an approximately five-year period. In such event, the City could be obligated to increase rates and charges to repay Bank of America, N.A. and such increases could increase the likelihood of nonpayment of electric rates and charges by customers.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2009A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the 2009A Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2009A Bonds may be included as an adjustment in the calculation of alternative minimum taxable income.

The difference between the issue price of a 2009A Bond (the first price at which a substantial amount of the 2009A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2009A Bond (to the extent the redemption price at maturity is bigger than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2009A Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2009A Bondowner will increase the 2009A Bondowner's basis in the applicable 2009A Bond. The amount of original issue discount that accrues to the owner of the 2009A Bond is excluded from gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of interest on the 2009A Bonds (and original issue discount) is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and others comply with all requirements of the Internal Revenue Code of 1986, as amended

(the “**Code**”), that must be satisfied subsequent to the issuance of the 2009A Bonds to assure that interest on the 2009A Bonds (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest on the 2009A Bonds (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2009A Bonds. The City and others have covenanted to comply with all such requirements.

The amount by which a 2009A Bondowner’s original basis for determining loss on sale or exchange in the applicable 2009A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2009A Bond premium, which must be amortized under Section 171 of the Code; such amortizable 2009A Bond premium reduces the 2009A Bondowner’s basis in the applicable 2009A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2009A Bond premium may result in a 2009A Bondowner realizing a taxable gain when a 2009A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2009A Bond to the Owner. Purchasers of the 2009A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2009A Bond premium.

An owner who acquires a 2009A Bond for an amount that is greater than the sum of all amounts payable on the 2009A Bond after the purchase date other than payments of qualified stated interest will be considered to have purchased such 2009A Bond at a premium. An owner of a 2009A Bond generally may elect to amortize such premium using a constant yield method over the remaining term of the 2009A Bond. Any such election shall apply to all debt instruments (other than debt instruments the interest on which is excludable from gross income) held at the beginning of the first taxable year to which the election applies or thereafter acquired, and is irrevocable without consent of the IRS. Special rules may apply if a 2009A Bond is subject to call prior to maturity at a price in excess of its redemption price at maturity.

The Internal Revenue Service (the “**IRS**”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2009A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2009A Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, that Congress or the IRS might change the Code (or interpretation thereof) subsequent to the issuance of the 2009A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2009A Bonds or their market value.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state or local law) that affect the federal, state, or local tax treatment of the 2009A Bonds or the market value of the 2009A Bonds. No assurance can be given that subsequent to the issuance of the 2009A Bonds such changes or interpretations will not occur.

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2009A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of

interest on the 2009A Bonds (and original issue discount) for federal income tax purposes with respect to any 2009A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2009A Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2009A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2009A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2009A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2009A Bonds.

A copy of the proposed form of opinion of Bond Counsel for the 2009A Bonds is attached to this Official Statement as Appendix E.

VERIFICATION OF MATHEMATICAL ACCURACY

The Arbitrage Group, Inc., as Verification Agent, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to the Verification Agent on behalf of the City, relating to the sufficiency of the amounts deposited in the 1998 Escrow Fund, without interest earnings, to pay the Redemption Price, together with accrued interest to the date of redemption, of the outstanding 1998 Bonds in full approximately 30 days after pricing the 2009A Bonds.

The Arbitrage Group, Inc., as Verification Agent, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to the Verification Agent on behalf of the City, relating to the sufficiency of the amounts deposited in the 2001 Escrow Fund, without interest earnings, to (i) pay the principal of and interest due on the Refunded 2001 Bonds through October 1, 2011 and (ii) pay the Redemption Price, together with accrued Interest to the date of redemption, of the Refunded 2001 Bonds chosen for redemption on October 1, 2011.

See "THE PLAN OF FINANCE" above.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the 2009A Bonds are subject to the unqualified approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Bond Counsel has not undertaken any responsibility to the Owners for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the 2009A Bonds and expresses no opinion relating thereto. Said opinion in substantially the form attached as Appendix E will be delivered at the time of delivery of the 2009A Bonds. Certain legal matters will be passed upon for the City by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California, is acting as Disclosure Counsel to the City. Nossaman LLP is acting as counsel to the Underwriter.

The payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent upon the closing of the sale of the 2009A Bonds.

LITIGATION

At the time of delivery and payment for the 2009A 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 2009A Bonds or the power and authority of the City to issue the 2009A Bonds, or (ii) seeking to restrain or enjoin the collection of revenues pledged to pay the 2009A Bonds.

FINANCIAL STATEMENTS

The financial statements of the City of Riverside Electric Utility as of and for the year ended June 30, 2009 (the "**2009 Financial Statements**") 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 including its report in Appendix B. The Auditor's review in connection with the 2009 Financial Statements included in Appendix B included events only as of June 30, 2009 and no review or investigation with respect to subsequent events has been undertaken by the Auditor in connection with the 2009 Financial Statements.

RATINGS

Fitch Ratings Group has assigned a municipal bond rating of "AA-" to the 2009A Bonds and Standard & Poor's Credit Market Services, a division of the McGraw Hill Companies, Inc. has assigned a municipal bond rating of "AA-" to the 2009A Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2009A Bonds may have an adverse effect on the market price or marketability of the 2009A Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Owners and beneficial owners of the 2009A 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 2008-09 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the material event filings will be filed by the City with the Municipal Securities Rulemaking Board (the “**MSRB**”). The notices of material events will be filed by the City with the MSRB. 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).

The City has not failed to comply in any material respects with a previous undertaking under the Rule to provide annual reports or notices of material events in the last five years.

UNDERWRITING

The 2009A Bonds are being purchased by E. J. De La Rosa & Co., Inc. (the “**Underwriter**”) at a purchase price of \$37,976,965.50 (which is equal to the principal amount of the 2009A Bonds (\$34,920,000), plus net original issue premium of \$3,214,105.50 and less an underwriter’s discount of \$157,140.00).

The Underwriter has agreed to purchase all of the 2009A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the bond purchase agreement between the City and the Underwriter, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the 2009A Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page of this Official Statement. The offering price may be changed from time to time by the Underwriter.

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 2009A 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 2009A Bonds.

APPENDIX A

CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

The 2009A Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from the Net Operating Revenues of the City's Water System. The information set forth below is included in the Official Statement for background purposes only.

General Description and Background

Incorporated in October 11, 1883, the City of Riverside is a charter city that now functions under a Council/Manager form of government. A five member City Council, including the Mayor, is elected at large. The City Manager is appointed by the City Council.

Riverside County, which encompasses 7,303 square miles, was organized in 1893 from territory in San Bernardino and San Diego Counties. Located in the southeastern portion of California, Riverside County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the South by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. There are 24 incorporated cities in Riverside County.

Riverside County's varying topology includes desert, valley and mountain areas as well as gently rolling terrain. Three distinct geographical areas characterize Riverside County: the western valley area, the higher elevations of the mountains, and the deserts. The western valley, the San Jacinto mountains and the Cleveland National Forest experience the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions. Riverside County is the site for famous resorts, such as Palm Springs, as well as a leading area for inland water recreation. Nearly 20 lakes in Riverside County are open to the public. The dry summers and moderate to cool winters make it possible to enjoy these and other recreational and cultural facilities on a year-round basis.

Population

The following sets forth the City, the County and the State population estimates as of January 1, for the years 2005 to 2009:

CITY OF RIVERSIDE, RIVERSIDE COUNTY AND STATE OF CALIFORNIA Estimated Population

<u>Year (January 1)</u>	<u>City of Riverside</u>	<u>Riverside County</u>	<u>State of California</u>
2005	286,239	1,882,812	36,675,346
2006	288,933	1,962,801	37,114,598
2007	291,611	2,034,840	37,559,440
2008	296,191	2,078,601	37,883,992
2009	300,430	2,107,653	38,292,687

Source: State of California Department of Finance, Demographic Research Unit.

Commerce

Total taxable sales during the first three quarters of calendar year 2008 in the City were reported to be \$3,140,594,000, a 12.44% decrease over the total taxable sales of \$3,586,680,000 reported during the first three quarters of calendar year 2007. The valuations of taxable transactions in the City are presented in the following table. Annual figures are not yet available for 2008.

CITY OF RIVERSIDE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2003	3,355	\$3,210,160	7,707	\$3,974,583
2004	3,803	3,718,999	7,967	4,603,769
2005	3,981	4,019,963	7,664	4,950,254
2006	3,990	4,082,977	7,237	5,034,072
2007	3,812	3,888,251	7,427	4,789,554

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during the first three quarters of calendar year 2008 in the County were reported to be \$19,811,695,000, a 8.48% decrease over the total taxable sales of \$21,646,541,000 reported during the first three quarters of calendar year 2007. The valuations of taxable transactions in the County are presented in the following table. Annual figures are not yet available for 2008.

COUNTY OF RIVERSIDE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2003	18,300	\$16,030,952	40,833	\$21,709,135
2004	20,642	18,715,949	42,826	25,237,148
2005	22,691	20,839,212	44,222	28,256,491
2006	23,322	21,842,345	43,672	29,816,237
2007	22,918	21,242,516	45,279	29,023,609

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Employment and Industry

The City is included in the Riverside-San Bernardino-Ontario labor market area. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 14.2% in September 2009, down from a revised 14.6% in August 2009, and above the year-ago estimate of 9.1%. This compares with an unadjusted unemployment rate of 12.0% for California and 9.5% for the nation during the same period. The unemployment rate was 14.7% in Riverside County, and 13.6% in San Bernardino County.

The following table shows the average annual estimated numbers of wage and salary workers by industry. The table does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA (RIVERSIDE COUNTY) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	2004	2005	2006	2007	2008
Civilian Labor Force ⁽¹⁾	1,653,300	1,713,500	1,758,800	1,782,700	1,795,200
Employment	1,555,900	1,622,300	1,672,100	1,678,900	1,646,300
Unemployment	97,400	91,200	86,700	103,800	148,900
Unemployment Rate	5.9%	5.3%	4.9%	5.8%	8.3%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	18,700	18,300	17,300	16,400	16,200
Natural Resources and Mining	1,200	1,400	1,400	1,300	1,200
Construction	111,800	123,300	127,500	112,500	90,500
Manufacturing	120,100	121,000	123,400	118,500	107,000
Wholesale Trade	45,600	49,900	54,200	56,800	55,100
Retail Trade	153,800	165,700	173,200	175,600	168,000
Transportation, Warehousing and Utilities	55,500	60,200	63,800	69,500	70,200
Information	14,000	14,500	15,300	15,400	14,800
Finance and Insurance	28,000	30,100	31,700	30,700	27,800
Real Estate and Rental and Leasing	17,700	18,900	19,900	19,500	18,500
Professional and Business Services	125,500	133,200	142,300	145,000	136,700
Educational and Health Services	118,400	119,900	122,100	127,000	131,700
Leisure and Hospitality	116,700	122,600	128,100	132,600	130,100
Other Services	39,300	40,800	42,500	41,200	40,900
Federal Government	17,300	18,700	19,300	19,400	19,600
State Government	26,500	27,000	27,400	28,700	29,400
Local Government	168,700	174,800	175,700	177,200	181,000
Total All Industries	1,178,700	1,240,300	1,285,000	1,287,300	1,238,700

(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.

Major Employers

The table below shows the 10 largest employers in the City.

CITY OF RIVERSIDE LARGEST EMPLOYERS (As of January 1, 2009)

<u>Employer</u>	<u>Number of Employees</u>	<u>% of Total City Employment⁽¹⁾</u>
University of California Riverside	6,470	4.7%
Riverside Unified School District	4,000	2.9
City of Riverside	2,569	1.9
Riverside Community College	2,000	1.5
Alvord Unified School District	1,669	1.2
Riverside Community Hospital	1,600	1.2
Press-Enterprise Co.	1,090	0.8
Parkview Community Hospital	1,000	0.7
Kaiser Permanente	900	0.7
Riverside Medical Clinic	<u>600</u>	<u>0.4</u>
Total	21,898	16.0%

(1) Based on total City employment of 137,200.

Source: City of Riverside, Development Department (as presented in the City's 2009 Comprehensive Annual Financial Report).

The following table lists the largest employers within the County:

**COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(As of September 2009)**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Corrections Dept	Norco	State Govt-Correctional Institutions
Crossroads Truck Dismantling	Mira Loma	Automobile Wrecking (Whls)
Desert Sands Unified School District	La Quinta	Schools
Eisenhower Medical Ctr	Rancho Mirage	Hospitals
Eisenhower Medical Ctr	Rancho Mirage	Laboratories-Medical
Fantasy Springs Resort Casino	Indio	Bowling Centers
Handsome Rewards	Perris	Internet & Catalog Shopping
Hemet Valley Medical Ctr	Hemet	Hospitals
Hub International Of CA Ins	Riverside	Insurance
J W Marriott-Desert Spgs Resrt	Palm Desert	Hotels & Motels
Kaiser Permanente	Riverside	Physicians & Surgeons
La Quinta Resort & Club	La Quinta	Resorts
Morongo Casino Resort & Spa	Cabazon	Casinos
Mountain & Dunes Golf Courses	La Quinta	Golf Courses-Private
Pechanga Development Corp	Temecula	Casinos
Riverside City Council	Riverside	Government Offices-City, Village & Twp
Riverside Community Hospital	Riverside	Hospitals
Riverside County Regional Med	Moreno Valley	Hospitals
Riverside Forklift Training	Riverside	Trucks-Industrial (Whls)
Robertson's Ready-Mix	Corona	Concrete-Ready Mixed
Starcrest Of California	Perris	Internet & Catalog Shopping
Starcrest Products-California	Perris	Gift Shops
Sun World Intl LLC	Coachella	Fruits & Vegetables-Growers & Shippers
University Of Cal-Riverside	Riverside	Schools-Universities & Colleges Academic
Watson Pharmaceuticals Inc	Corona	Marketing Programs & Services

Source: California Employment Development Dept., America's Labor Market Information System (ALMIS) Employer Database, 2009 2nd Edition

Construction Activity

The following is a five-year summary of the valuation of building permits issued in the City. During the first nine months of calendar year 2009, the City issued building permits for 48 single-family (valued at \$12,156,839) and 23 multi-family (valued at \$711,339) residential units. During this same time, non-residential permits were valued at \$59,707,392.

CITY OF RIVERSIDE Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Permit Valuation</u>					
New Single-family	\$205,436.7	\$333,223.8	\$200,821.0	\$88,770.6	\$23,168.9
New Multi-family	23,610.9	44,223.8	32,498.8	59,369.5	24,410.6
Res. Alterations/Additions	<u>22,225.7</u>	<u>22,817.8</u>	<u>17,139.3</u>	<u>18,372.3</u>	<u>16,864.6</u>
Total Residential	251,273.3	400,265.4	250,459.2	166,512.4	64,444.1
New Commercial	161,598.7	107,106.2	118,436.2	117,693.6	55,156.5
New Industrial	14,593.8	26,909.5	35,584.2	45,943.6	13,778.9
New Other	32,324.4	35,436.2	26,905.6	27,857.2	11,023.8
Com. Alterations/Additions	<u>40,374.2</u>	<u>56,320.9</u>	<u>63,389.1</u>	<u>67,889.5</u>	<u>59,695.9</u>
Total Nonresidential	248,891.2	225,772.7	244,315.3	259,383.9	139,655.2
 <u>New Dwelling Units</u>					
Single Family	820	1,442	847	342	69
Multiple Family	<u>282</u>	<u>521</u>	<u>286</u>	<u>599</u>	<u>216</u>
TOTAL	1,102	1,963	1,133	941	285

Source: Construction Industry Research Board, *Building Permit Summary*

The following is a five-year summary of the valuation of building permits issued in the County.

COUNTY OF RIVERSIDE Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Permit Valuation</u>					
New Single-family	\$5,997,513.2	\$6,243,791.7	\$4,412,255.1	\$2,207,519.5	\$1,214,753.0
New Multi-family	404,615.9	407,432.1	431,580.9	238,315.9	243,741.9
Res. Alterations/Additions	<u>135,176.6</u>	<u>164,312.5</u>	<u>158,099.4</u>	<u>141,997.0</u>	<u>118,488.7</u>
Total Residential	6,537,305.6	6,815,536.3	5,001,935.4	2,587,832.4	1,576,983.5
New Commercial	580,057.8	552,666.9	648,065.7	682,331.0	539,943.4
New Industrial	203,311.9	120,367.6	288,352.6	184,505.6	70,410.8
New Other	334,001.0	344,703.2	290,006.3	240,767.0	138,765.2
Com. Alterations/Additions	<u>222,495.5</u>	<u>274,337.7</u>	<u>303,408.9</u>	<u>350,539.1</u>	<u>292,693.8</u>
Total Nonresidential	1,339,866.1	1,292,075.4	1,529,833.4	1,458,142.7	1,041,813.1
 <u>New Dwelling Units</u>					
Single Family	29,478	29,994	20,692	9,763	3,815
Multiple Family	<u>4,748</u>	<u>4,140</u>	<u>4,519</u>	<u>2,690</u>	<u>2,104</u>
TOTAL	34,226	34,134	25,211	12,453	5,919

Source: Construction Industry Research Board, *Building Permit Summary*

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

CITY OF RIVERSIDE Effective Buying Income 2004 through 2008

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2004	City of Riverside	\$4,303,175	\$38,787
	Riverside County	29,468,208	40,275
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	City of Riverside	\$4,510,655	\$39,461
	Riverside County	32,004,438	41,326
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	City of Riverside	\$4,823,975	\$41,469
	Riverside County	35,656,620	43,490
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	City of Riverside	\$5,065,658	\$43,161
	Riverside County	38,631,365	45,310
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	City of Riverside	\$5,318,760	\$45,059
	Riverside County	40,935,408	46,958
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Survey of Buying Power for 2004; Claritas Demographics for 2005 and after.

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 61 elementary and middle schools and high schools. 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 at Riverside. Also located in the City are the California School for the Deaf and the Sherman Indian High School, a federally-run school for Native Americans.

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 at San Bernardino, approximately 15 miles north of the City.

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

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

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
OF RIVERSIDE ELECTRIC UTILITY FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

INDEPENDENT AUDITORS' REPORT: ELECTRIC



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

INDEPENDENT AUDITORS' REPORT

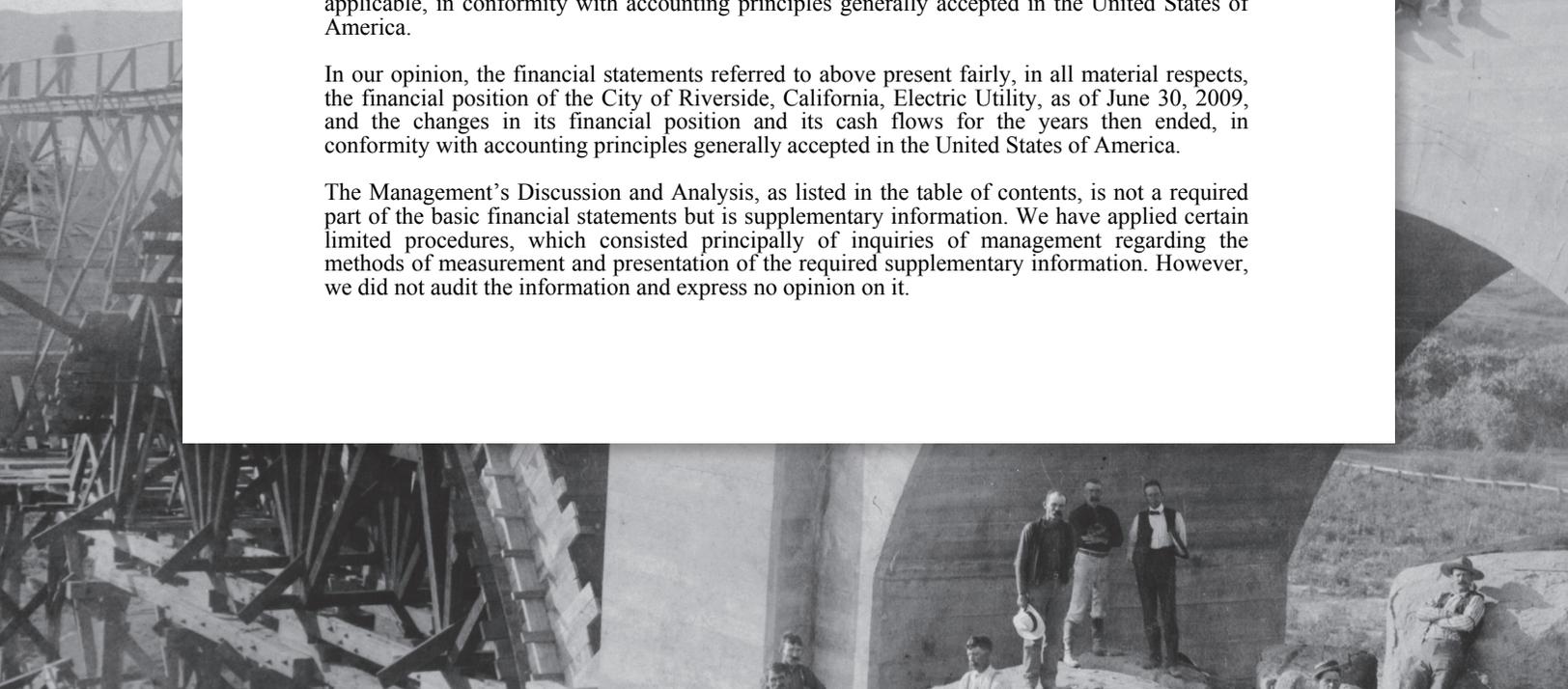
We have audited the accompanying financial statements of the City of Riverside, California, Electric Utility, an enterprise fund of the City, as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Electric 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, 2008 and, in our report dated October 3, 2008, 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, 2009, 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. 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: ELECTRIC



To the Honorable City Council and Board of Public Utilities
City of Riverside
Page 2

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 29, 2009 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 Me Cann P.C.

San Jose, California
October 29, 2009



MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

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, 2009 and 2008. 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 2009 and 2008 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 and the effects of rate increases.

- Retail sales, net of reserve/recovery were \$272,298 and \$257,120 for years ended June 30, 2009 and 2008, respectively.
- The assets of the Electric Utility exceeded its liabilities (equity) at the close of fiscal years 2009 and 2008 by \$398,266 and \$356,297, respectively. Of this amount, \$164,762 and \$146,440, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's overall equity increased by \$41,969 and \$30,810 for fiscal years ended June 30, 2009 and 2008 due to positive operating results from the historic levels of retail sales and other items discussed in this report.
- As of June 30, 2009 and 2008, unrestricted equity represented over 67% and 58% 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 38 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

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 \$398,266 and \$356,297 at the close of the fiscal years 2009 and 2008, respectively.

The following table summarizes the Utility's financial condition as of June 30, 2009, 2008 and 2007:

CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2009	2008	2007
Current and other assets	\$ 462,012	\$ 498,822	\$ 318,076
Capital assets	565,894	505,444	452,712
Total assets	1,027,906	1,004,266	770,788
Long-term debt outstanding	506,208	528,030	334,751
Other liabilities	123,432	119,939	110,550
Total liabilities	629,640	647,969	445,301
Invested in capital assets, net of related debt	204,902	181,966	162,384
Restricted	28,602	27,891	25,395
Unrestricted	164,762	146,440	137,708
Total equity (net assets)	\$ 398,266	\$ 356,297	\$ 325,487

ASSETS

Fiscal Year 2009 The Utility's total assets of \$1,027,906 reflect an increase of \$23,640 (2.4%), mainly due to the following:

- Total assets less Utility plant decreased by \$36,810, of which \$49,583 relates to decreases in restricted assets offset by an increase of \$12,773 in unrestricted and other non-current assets.
- The decrease of \$49,583 in restricted assets is primarily due to a \$5,301 increase in nuclear decommissioning reserve offset by a \$55,136 reduction in 2008 bond proceeds used to fund capital projects.
- Unrestricted and other non-current assets increased by \$12,773 mostly due to \$56,196 in unrestricted cash from the City's repayment of its advances of \$33,586, increases of \$7,610 in operating cash, and \$15,000 in operating reserves resulting from positive operating results, offset by \$42,413 from net decreases in advances receivable from the City, deferred purchased power, accrued interest and accounts receivable, and prepaid expenses.
- The increase in net capital assets (Utility plant) of \$60,450 was due to an increase in completed distribution system assets of \$32,596 resulting from continued improvements to the Electric Utility's distribution system and increases in construction in progress of \$32,488 due to the continued construction of the RERC units 3 and 4, offset by the current year impact of depreciation. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section of the financial analysis.

Fiscal Year 2008 Total assets were \$1,004,266, an increase of \$233,478 (30.3%), comprised of a \$52,732 increase in Utility plant for improvements to the distribution system, including \$15,083 for construction in progress, and \$180,746 of non-Utility plant increases. The \$180,746 increase in non-Utility plant was primarily due to the increase in restricted assets of \$165,578 due to the receipt of bond proceeds from the issuance of the 2008 Electric Revenue Series D Bonds in the amount of \$209,740 and the use of \$51,763 in bond proceeds for capital projects. Unrestricted and non-current assets increased by \$15,168. Within this category, unrestricted cash and cash equivalents decreased \$26,701 due to Advances to the City of \$39,504 offset by a \$12,153 increase in operating cash due to positive operating results.

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

LIABILITIES

Fiscal Year 2009 The Utility's total liabilities were \$629,640, a decrease of \$18,329 (2.8%), due to the following:

- Long-term debt outstanding decreased by \$21,822, primarily due to principal repayments and the amortization of bond premiums and deferred bond refunding costs.
- Other liabilities increased by \$3,493, primarily due to increases of \$4,549 in nuclear decommissioning, \$955 in the current portion of long-term obligations, \$1,653 in accrued interest payable, \$2,433 in capital leases payable and \$624 in postemployment benefits payable, offset by a \$6,835 combined decrease in accounts payable and accrued liabilities.

Fiscal Year 2008 Total liabilities were \$647,969, an increase of \$202,668 (45.5%), due to an increase in long-term debt outstanding of \$193,279, resulting from the issuance of new bonds in the amount of \$209,740 offset by \$19,460 in principal repayments, and the amortization of bond premiums and deferred bond refunding costs. Other liabilities increased by \$9,389, mainly due to increases of \$3,917 in nuclear decommissioning and \$3,291 in accounts payable.

EQUITY (NET ASSETS)

Fiscal Year 2009 The Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled \$398,266, an increase of \$41,969 (11.8%), primarily the result of retail revenues reaching an historic high and is comprised of the following:

- A portion of the Utility's equity (51.4%) 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 \$204,902, an increase of \$22,936 (12.6%), primarily due to the amount of capital assets constructed or purchased that were 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 \$28,602 (7.2% 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 \$711 (2.5%) due to an increase in the required debt service reserve offset by a decrease in Public Benefits Programs' assets.
- The unrestricted portion equals \$164,762 (41.4% of total equity), an increase of \$18,322 (12.5%), 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 2008 Electric fund equity increased by \$30,810 (9.5%) to a total of \$356,297. The portion of equity investment in capital assets, net of related debt, increased by \$19,582 primarily due to the amount of capital assets constructed or purchased that were not bond financed. The restricted portion increased by \$2,496 due to an increase in the required debt service reserve as a result of the \$209,740 bond issue and the \$119,115 refunding bond issue. The unrestricted portion increased by \$8,732 and was attributable to positive operating results.

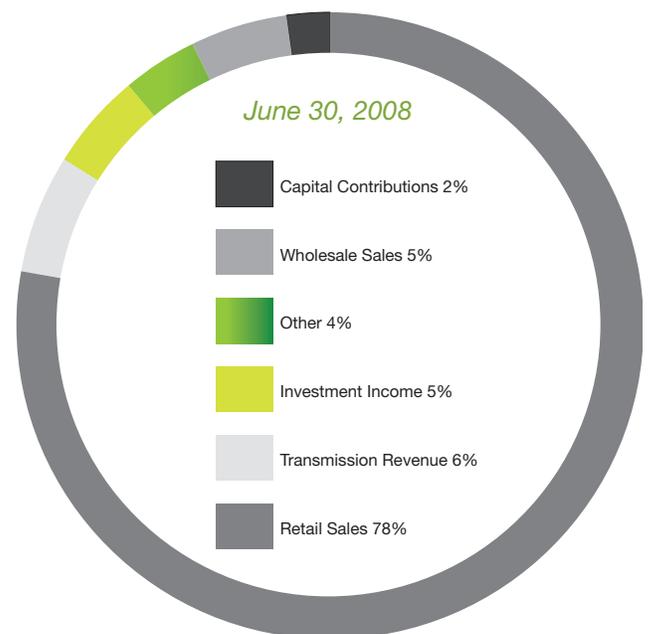
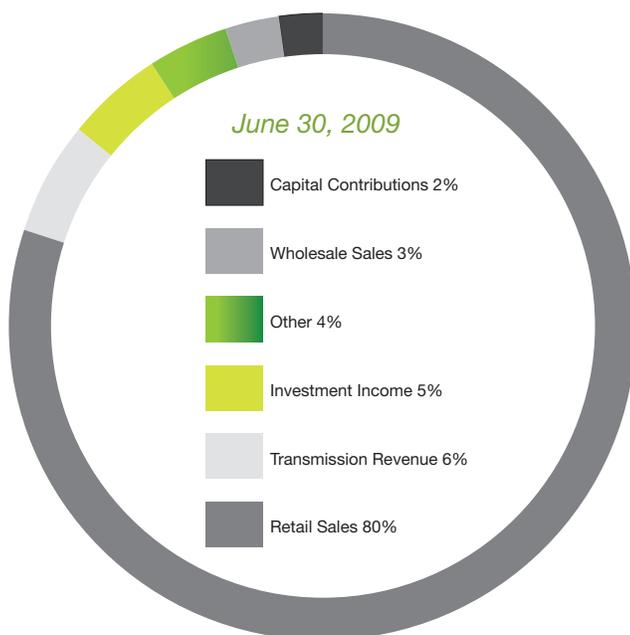
MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

Positive operating results in the Electric Utility increased equity by \$41,969 and \$30,810 during fiscal years 2009 and 2008, respectively, as reflected in the following Condensed Statements of Changes in Equity:

CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2009	2008	2007
Revenues:			
Retail sales, net	\$ 272,298	\$ 257,120	\$ 238,658
Wholesale sales	9,400	14,805	9,913
Transmission revenues	18,673	19,211	20,097
Investment income	17,625	16,380	11,118
Other operating revenues	14,162	14,242	11,372
Capital contributions	7,060	6,076	9,781
Total revenues	339,218	327,834	300,939
Expenses:			
Production and purchased power	140,673	151,451	129,981
Transmission	32,677	31,288	29,902
Distribution	47,808	48,749	36,341
Depreciation	23,091	22,193	20,836
Interest expense and fiscal charges	23,417	15,972	14,602
Total expenses	267,666	269,653	231,662
Transfers to the City's general fund	(29,583)	(27,371)	(27,393)
Changes in equity	41,969	30,810	41,884
Equity, July 1	356,297	325,487	283,603
Equity, June 30	\$ 398,266	\$ 356,297	\$ 325,487

REVENUES BY SOURCES



MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

Fiscal Year 2009 Total revenues for the years ended June 30, 2009 and 2008 were \$339,218 and \$327,834, respectively, an increase of \$11,384 (3.5%), with changes in the following:

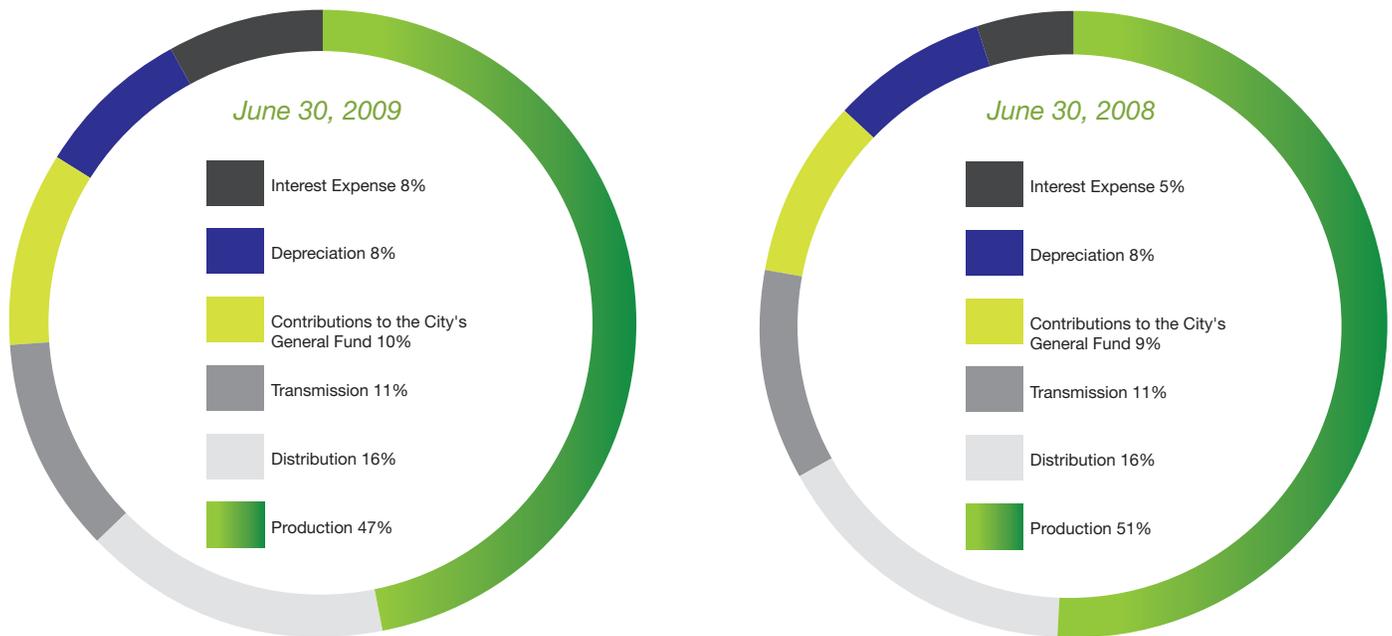
- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled \$272,298, a \$15,178 (5.9%) increase. Retail sales continue to be the primary revenue source for the Electric Utility, accounting for 80.3% of total revenues. The \$15,178 increase was primarily due to the positive effects of rate increases on January 1, 2008 and January 1, 2009 as a result of the Electric Rate Plan.
- Wholesale sales of \$9,400 decreased by \$5,405 (36.5%), due to a lower volume of "excess" power available for sale, as well as lower prices received for market sales as a result of lower prices for natural gas.
- Investment income of \$17,625 reflects an increase of \$1,245 (7.6%), due to an increase in the size of the investment portfolio from positive operating results offset by a lower overall earnings rate of 3.9% in the current fiscal year.

Fiscal Year 2008 Total revenues were \$327,834, an increase of \$26,895 (8.9%), with significant changes in the following areas:

- Net retail sales of \$257,120 (78.4% of total revenues) increased by \$18,462 (7.7%). The \$18,462 increase was primarily due to rate increases on January 1, 2007 and January 1, 2008. The rate increase on January 1, 2008 reflects the first year of the three year Electric Rate Plan.
- Wholesale sales were \$14,805, an increase of \$4,892 (49.3%), due to higher than expected volume of "excess" power available for sale, as well as higher prices received for market sales.
- Investment income was \$16,380, an increase of \$5,262 (47.3%), predominantly due to an overall higher investment earnings rate of 4.6% (compared to 4.1% in prior year), a net increase in fair value of investments of \$2,516, as well as an increase in the size of the investment portfolio from the new bond issue and positive operating results.
- Capital contributions were \$6,076, a decrease of \$3,705 (37.9%), reflecting a lower level of construction projects funded by others.
- Other operating revenues were \$14,242, an increase of \$2,870 (25.2%), primarily due to increases in Public Benefits Program revenues of \$788 and settlement reimbursements of \$1,343.

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

EXPENSES BY SOURCES



Fiscal Year 2009 Total expenses for the years ended June 30, 2009 and 2008 were \$267,666 and \$269,653, respectively, a decrease of \$1,987 (0.7%). The decrease was primarily due to the following:

- Production and purchased power costs of \$140,673 decreased by \$10,778 (7.1%), primarily due to lower generation costs due to excess market supply in a weakening economy and decreases in natural gas prices.
- Interest expense and fiscal charges of \$23,417 increased by \$7,445 (46.6%), primarily due to an entire year of interest expense related to the 2008 Electric Revenue Series D Bonds.

Fiscal Year 2008 Total expenses were \$269,653, an increase of \$37,991 (16.4%), due to items discussed below:

- Production and purchased power costs of \$151,451 increased by \$21,470 (16.5%), primarily due to the increase in spot and term market costs and the increase in natural gas prices for internal generation.
- Distribution expense of \$48,749 increased by \$12,408 (34.1%), predominantly from increases in personnel-related expenses, professional services, and increased rebate and incentive activity of the Public Benefits Program.

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 2009 The Electric Utility transferred \$29,583, an increase of \$2,212 (8.1%). This amount is approximately 10.5% of prior year's gross operating revenues less wholesale sales and Public Benefit Program revenues.

Fiscal Year 2008 The Electric Utility transferred \$27,371. This amount was approximately 10.5% of prior year's operating revenues less wholesale sales and Public Benefit Program revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Electric Utility's investment in Capital Assets includes investments in production, transmission, and distribution related facilities, land, 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:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Production	\$ 129,051	\$ 135,200	\$ 140,402
Transmission	16,003	16,046	16,206
Distribution	283,558	259,902	217,684
General	23,470	13,806	14,063
Land	7,612	7,149	7,049
Construction in progress	102,234	69,746	54,663
Nuclear fuel, at amortized costs	3,966	3,595	2,645
	<u>\$ 565,894</u>	<u>\$ 505,444</u>	<u>\$ 452,712</u>
Total	\$ 565,894	\$ 505,444	\$ 452,712

Fiscal Year 2009 The Electric Utility's investment in capital assets, net of accumulated depreciation, was \$565,894, an increase of \$60,450 (12.0%). The increase resulted primarily from the following significant capital projects:

- \$3,820 for the City's portion of capital additions at the San Onofre Nuclear Generating Station ("SONGS"), including costs to replace the steam generators which will extend the life of the plant.
- \$36,554 of expenses related to the Riverside Energy Resource Center Units 3 and 4 which will provide the Utility with 98 MW of additional generation facilities within the City limits.
- \$2,946 for the initial stages of the Riverside Transmission Reliability Project and related reliability improvements to the City's sub-transmission system for additional generation import capability by construction of a second point of interconnection with the state's high voltage transmission grid to serve future retail needs.
- \$23,742 in additions and improvements to Electric facilities to serve existing and connect new customers.
- \$3,015 for the purchase of facilities to provide additional centrally located office space for the Utility.

Fiscal Year 2008 The Electric Utility's investment in capital assets, net of accumulated depreciation, was \$505,444, an increase of \$52,732 (11.6%). The increase resulted from \$3,409 in expenses for the City's portion of capital additions at SONGS, \$32,293 of expenses related to the Riverside Energy Resource Center Units 3 and 4, \$3,144 for the initial stages of the Riverside Transmission Reliability Project, and \$28,425 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 29 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

DEBT ADMINISTRATION

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenue bonds	\$ 524,780	\$ 545,125	\$ 352,830
Unamortized premium	9,760	10,931	7,469
Less:			
Current portion	(21,300)	(20,345)	(19,460)
Unamortized bond refunding costs	(7,032)	(7,681)	(6,088)
Total	<u>\$ 506,208</u>	<u>\$ 528,030</u>	<u>\$ 334,751</u>

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 2.60, 2.62, and 3.09 at June 30, 2009, 2008 and 2007, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

Fiscal Year 2009 Total long-term debt decreased \$21,822 (4.1%) to \$506,208, due to \$20,345 in principal repayments, and the amortization of bond premiums and deferred refunding costs.

Fiscal Year 2008 Total long-term debt increased \$193,279 (57.7%) to \$528,030, due to the May 8, 2008 issuance of new 2008 Electric Revenue Series D Bonds in the amount of \$209,740 offset by \$19,460 in principal repayments, and amortization of bond premiums and deferred refunding costs. On April 25, 2008, the Utility also issued the 2008 Electric Refunding/Revenue Series A, B, and C Bonds to advance refund the 2004 Electric Revenue Series B Bonds and the 2005 Electric Refunding/Revenue Series A and B Bonds.

Additional information on the Electric Utility's long-term debt can be found in Note 4 on pages 29 through 33 of this report.

CREDIT RATINGS

In April 2008, Standard & Poor's raised the rating of the Electric Utility's bonds to "AA-" from "A+", reflecting "RPU's very strong and improving financial performance, continued willingness to adjust rates, and prudent investment in renewable energy resources that position RPU's resource portfolio well for the future given increasingly stringent regulatory and environmental pressures facing California electric utilities."

Also in April 2008, Fitch Ratings reaffirmed its "AA-" rating of the Electric Utility's bonds, with a stable outlook, citing the Utility's credit strengths as its "competitive power resource mix relative to the California market and early investment in renewable energy contracts, the addition of local peaking generation for improved system reliability, diverse customer base with the top five customers accounting for 11% of revenues and the largest single user at less than 3%, strong financial margins that have allowed the Utility to build cash reserves and reinvest in the system and steady load growth."

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

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

Cities have a compelling interest in reducing greenhouse gas emissions at the local level, especially as stakeholders and state agencies are working towards implementation of the California Global Warming Solutions Act (AB32, 2006).

Riverside Public Utilities (RPU) is committed to meeting or exceeding the Renewable Portfolio Standard (RPS) established by the State of California, as required of investor-owned utilities by the Public Utilities Code (SB 1078, 2002) and in keeping with the letter and spirit of the Public Utilities Code and the Health and Safety Code relating to air pollution (AB 32, 2006). With execution of two renewable geothermal energy contracts with the Northwestern Band of Shoshone Nation (See Note 8 for discussions on Renaissance contracts), RPU has increased its current supply of electricity from renewable sources and RPU anticipates exceeding its 2020 target of 33 percent of the City's electricity originating from renewable resources by reaching 50 percent in 2013.

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. Baseload resources, greater than 5 MW and exceeding five years duration, 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).

On December 17, 2007, the City Council approved the Clean and Green Sustainable Riverside Action Plan to ensure sustainable growth while preserving the health of the local environment in Riverside for generations. On February 3, 2009, Riverside was the first California City to be designated as an "Emerald City" through the State of California Department of Conservation's Comprehensive Recycling Community Program which focuses on environmental priorities including water conservation, energy efficiency, improved air quality, protection of agricultural and open-space lands, solid waste reduction, motor vehicle and fuel use reduction, smart growth, sustainable land-use development principles, and economic development.

Riverside continues to invest significant resources in providing energy supplies through clean natural resources and to explore new ideas and technologies that support the City's Clean and Green goal to become one of California's leading municipal power agencies in the use of renewable energy and reduction of greenhouse gas emissions. The City of Riverside is committed to working with regional, state and federal regulators to achieve this goal.

ECONOMIC FACTORS AND RATES

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

The FERC imposed \$400/MWh price cap on purchased power (June 2001) expired with the California Independent System Operator's (CAISO) successful launch of the Market Redesign and Technology Upgrade ("MRTU") on April 1, 2009, in order to implement a day-ahead wholesale electricity market, improve electricity grid management reliability, operational efficiencies and related technology infrastructure. In general, the energy bid cap is initially set at \$500/MWh and will increase over time to \$1,000/MWh. However, under certain transmission constraints prices could exceed that amount, and are limited by the CAISO's price floor of (\$2,500)/MWh and a price cap of \$2,500/MWh, authorized by the FERC with a yet-to-be-determined sunset date. The CAISO continues to monitor and test the extreme price swings to ensure they aren't caused by the CAISO's very complex software systems. The new markets under MRTU present both risks and opportunities and are expected to impact costs to the City. The City is seizing the new opportunities without assuming additional risks in order to reduce overall costs to its ratepayers. The Utility continues to be

MANAGEMENT'S DISCUSSION AND ANALYSIS: ELECTRIC

vigilant in monitoring the MRTU outcomes, its active participation in the new market initiatives, and to implement changes to the appropriate systems, software and market strategies in the MRTU.

Initial indications from the MRTU markets are favorable to load serving entities such as the City, although the power markets haven't been stressed due to generally milder weather patterns, low natural gas prices due to excess supply, and more importantly, the availability of excess generation due to the economic downturn and its impact on load reduction due to reduced power usage and high vacancies. Forward price curves have stabilized. However, regulatory actions and other factors, including volatility in natural gas and coal prices, low snowpack in the Pacific Northwest, high temperatures in Southern California, and transmission constraints or system integration under the complex CAISO business systems under a "stressed" MRTU market environment 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 would 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 would 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 and more equitably allocate the increase across all rate classes. On December 4, 2007 the City Council approved a revised Electric Rate Plan that incorporates a reliability charge to all customer classes, a restructuring of the tiered residential rates, and established rate increases for three consecutive years effective January 1, 2008, 2009, and 2010. The Electric Rate Plan will provide equitable rates, system reliability, additional generation and transmission resources, emergency preparedness, and sound financial planning.

Proposals in the state and federal legislatures and other external factors could impact the revenues or costs of, and/or rates charged by the Utility depending on whether they are ultimately enacted and how they are implemented. These include a state, federal and/or regional cap and trade program (including the allocation of emission credits, availability of offsets, and the phase-in period to meet specific GHG emission reduction targets); additional renewable portfolio standard mandates—including eligibility requirements such as "simultaneous delivery", or in-state generation; feed-in-tariffs for local renewable photovoltaic generation; demand response and energy efficiency programs; cost allocation for federal and state high-voltage transmission infrastructure expansion, grid reliability enhancements, and renewable integration; continued disruption in the financial markets; California's MRTU markets under stressed conditions or impacts from future initiatives, and technological advances for carbon capture and geologic sequestration. Although the financial impacts to the Utility cannot be determined at this time, management is diligent in monitoring and analyzing these and other factors that could impact Utility operations, and proactively advocates solutions most beneficial or least harmful to its ratepayers.

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 Services, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting www.RiversidePublicUtilities.com.

BALANCE SHEETS: ELECTRIC

ASSETS	June 30, 2009	June 30, 2008
	(in thousands)	
UTILITY PLANT:		
Production	\$ 266,470	\$ 262,563
Transmission	27,544	26,972
Distribution	426,515	393,919
General	38,752	28,623
	<u>759,281</u>	<u>712,077</u>
Less accumulated depreciation	(307,199)	(287,123)
	<u>452,082</u>	<u>424,954</u>
Land	7,612	7,149
Construction in progress	102,234	69,746
Nuclear fuel, at amortized cost	3,966	3,595
	<u>565,894</u>	<u>505,444</u>
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	20,477	18,981
Cash and investments at fiscal agent (Note 2)	222,538	273,488
	<u>243,015</u>	<u>292,469</u>
OTHER NON-CURRENT ASSETS:		
Advances to City	5,918	37,724
Deferred pension costs	13,260	13,439
Deferred purchased power (Note 8)	1,670	5,011
Deferred bond issuance costs	7,523	8,183
	<u>28,371</u>	<u>64,357</u>
Total other non-current assets	<u>28,371</u>	<u>64,357</u>
Total non-current assets	<u>837,280</u>	<u>862,270</u>
CURRENT ASSETS:		
<i>Unrestricted assets:</i>		
Cash and cash equivalents (Note 2)	134,883	78,687
Accounts receivable, less allowance for doubtful accounts 2009 \$490; 2008 \$548	27,140	30,354
Accounts receivable other utilities and governments, less allowance for doubtful accounts 2009 \$1,515; 2008 \$1,668	10,870	10,307
Advances to City	-	1,780
Accrued interest receivable	745	2,794
Prepaid expenses	6,224	7,010
Nuclear materials inventory	1,750	1,921
	<u>181,612</u>	<u>132,853</u>
Total unrestricted current assets	<u>181,612</u>	<u>132,853</u>
<i>Restricted assets:</i>		
Cash and cash equivalents (Note 2)	8,328	8,321
Public Benefit Programs receivable	686	822
	<u>9,014</u>	<u>9,143</u>
Total restricted current assets	<u>9,014</u>	<u>9,143</u>
Total current assets	<u>190,626</u>	<u>141,996</u>
Total assets	<u>\$ 1,027,906</u>	<u>\$ 1,004,266</u>

* See accompanying notes to the financial statements

BALANCE SHEETS: ELECTRIC

EQUITY AND LIABILITIES	June 30, 2009	June 30, 2008
	(in thousands)	
EQUITY:		
Invested in capital assets, net of related debt	\$ 204,902	\$ 181,966
Restricted for:		
Debt service (Note 5)	20,477	18,981
Public Benefit Programs	8,125	8,910
Unrestricted	164,762	146,440
Total equity	<u>398,266</u>	<u>356,297</u>
LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)	<u>506,208</u>	<u>528,030</u>
OTHER NON-CURRENT LIABILITIES:		
Pension obligation (Notes 1 and 4)	12,979	13,206
Nuclear decommissioning liability (Notes 1 and 4)	59,072	54,523
Postemployment benefits payable (Notes 1 and 4)	1,229	605
Capital leases payable (Notes 1 and 4)	2,073	-
Total non-current liabilities	<u>75,353</u>	<u>68,334</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued interest payable	4,454	2,801
Public Benefit Programs payable	888	233
Current portion of long-term obligations (Note 4)	21,300	20,345
Total current liabilities payable from restricted assets	<u>26,642</u>	<u>23,379</u>
CURRENT LIABILITIES:		
Accounts payable	13,933	18,905
Accrued liabilities	4,364	6,227
Capital leases payable (Notes 1 and 4)	360	-
Customer deposits	2,780	3,094
Total current liabilities	<u>21,437</u>	<u>28,226</u>
Total liabilities	<u>629,640</u>	<u>647,969</u>
COMMITMENTS AND CONTINGENCIES (NOTES 8 AND 9)	-	-
Total equity and liabilities	<u>\$ 1,027,906</u>	<u>\$ 1,004,266</u>

* See accompanying notes to the financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY: ELECTRIC

For the Fiscal Years
Ended June 30,
2009 2008
(in thousands)

OPERATING REVENUES:

Residential sales	\$ 105,525	\$ 99,981
Commercial sales	65,532	60,768
Industrial sales	97,100	92,697
Other sales	5,684	5,425
Wholesale sales	9,400	14,805
Transmission revenue	18,673	19,211
Other operating revenue	12,250	12,405
	314,164	305,292
Total operating revenues before (reserve)/recovery		
Reserve for uncollectible, net of bad debt recovery	(1,543)	(1,751)
	312,621	303,541

OPERATING EXPENSES:

Production and purchased power	140,673	151,451
Transmission	32,677	31,288
Distribution	47,808	48,749
Depreciation	23,091	22,193
	244,249	253,681
Total operating expenses		
Operating income	68,372	49,860

NON-OPERATING REVENUES (EXPENSES):

Investment income	17,625	16,380
Interest expense and fiscal charges	(23,417)	(15,972)
Gain on retirement of utility plant	210	171
Other	1,702	1,666
	(3,880)	2,245
Total non-operating revenues (expenses)		
Income before capital contributions and transfers	64,492	52,105
Capital contributions	7,060	6,076
Transfers out - contributions to the City's general fund	(29,583)	(27,371)
	(22,523)	(21,295)
Total capital contributions and transfers out		
Increase in equity	41,969	30,810
EQUITY, BEGINNING OF YEAR	356,297	325,487
EQUITY, END OF YEAR	\$ 398,266	\$ 356,297

* See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS: ELECTRIC

For the Fiscal Years
Ended June 30,
2009 2008
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and users	\$ 315,095	\$ 300,101
Cash paid to suppliers and employees	(215,839)	(219,735)
Other receipts	1,702	1,666
Net cash provided by operating activities	100,958	82,032
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers out - contributions to the City's general fund	(29,583)	(27,371)
Principal paid on pension obligation bonds	(227)	(184)
Advances to City	33,586	(39,503)
Net cash provided (used) by non-capital financing activities	3,776	(67,058)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of utility plant	(72,900)	(68,573)
Purchase of nuclear fuel	(2,221)	(2,046)
Proceeds from the sale of utility plant	558	916
Deposit to escrow account for advanced bond refunding	-	(197,100)
Proceeds from revenue bonds, including premium	-	413,404
Principal paid on long-term obligations	(20,639)	(19,460)
Interest paid on long-term obligations	(23,950)	(16,194)
Capital contributions	1,493	4,030
Bond issuance costs	-	(5,100)
Net cash provided (used) by capital and related financing activities	(117,659)	109,877
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	(4,186)	(5,955)
Income from investments	19,674	13,970
Net cash provided by investing activities	15,488	8,015
Net increase in cash and cash equivalents	2,563	132,866
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$212,733 and \$53,166 at June 30, 2008 and June 30, 2007, respectively, reported in restricted accounts)	291,420	158,554
CASH AND CASH EQUIVALENTS, END OF YEAR (including \$159,100 and \$212,733 at June 30, 2009 and June 30, 2008, respectively, reported in restricted accounts)	\$ 293,983	\$ 291,420
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 68,372	\$ 49,860
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	23,091	22,193
Amortization of deferred charges-pension costs	179	131
Amortization of nuclear fuel/purchased power	5,191	4,437
(Decrease) increase in allowance for uncollectible accounts	(211)	846
Decrease (increase) in accounts receivable	2,998	(4,800)
Decrease (increase) in prepaid expenses	786	(580)
Decrease (increase) in nuclear materials inventory	171	(386)
(Decrease) increase in accounts payable	(4,972)	3,292
Increase in postemployment benefits payable	624	604
(Decrease) increase in accrued liabilities	(1,863)	285
Increase in Public Benefit Programs	655	53
(Decrease) increase in customer deposits	(314)	514
Increase in decommissioning liability	4,549	3,917
Other receipts	1,702	1,666
Net cash provided by operating activities	\$ 100,958	\$ 82,032
SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Capital contributions - capital assets	5,565	4,992
Borrowing under capital lease	2,433	-
Increase in fair value of investments	748	1,014

* See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

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 \$12,609 at June 30, 2009, and \$13,876 at June 30, 2008.

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.....	13-30 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 Co (SCE), on a quarterly basis (see Note 7).

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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, 2009, 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.

ADVANCES

Advances have been recorded as a result of agreements between the Electric Utility and the City. There are two advances with terms that range from no specified term to a five year term with interest payable annually at a rate equal to the rate of interest earned on the investment pool managed by the Treasurer of the City. The balance of Advances to the City was \$5,918 at June 30, 2009 and \$39,504 at June 30, 2008.

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.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 February 2009 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 \$59,072 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.

CAPITAL LEASES

The City of Riverside Public Utilities has entered into eight capital lease agreements as a lessee for financing eight compressed natural gas heavy duty service trucks. These leases have seven year terms with monthly payments with interest rates ranging from 3.24% to 5.87%. The total gross value of the leases is \$2,728 with depreciation provided over the seven year terms of the leases using the straight-line method.

For fiscal year ended June 30, 2009, the total liability was \$2,433. The minimum annual lease payments for the life of the leases are \$446 annually through fiscal year ended June 30, 2014, \$432 in the fiscal year ended June 30, 2015, and \$65 in the fiscal year ended June 30, 2016. Total future minimum lease payments are \$2,727, with \$294 representing interest and \$2,433 representing the present value of the net minimum lease payments.

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, 2009 and 2008 respectively are as follows: Regulatory Risk Reserve \$4,000 and \$4,000, Energy Risk Management Reserve \$11,000 and \$11,000 and Operating Reserve \$86,531 and \$37,946, for a combined total of \$101,531 and \$52,946 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, 2009 and 2008 was \$2,780 and \$3,094, respectively.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

COMPENSATED ABSENCES

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2009 and 2008. The Electric Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was \$3,868 at June 30, 2009, and \$5,828 at June 30, 2008, 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 workers' 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 \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risk for the year ended June 30, 2009, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2009 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 \$652 and \$709 for the years ended June 30, 2009 and 2008, 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.

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, 2009 and 2008 was 14.17 percent and 13.29 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, 2009 and 2008 was \$5,733 and \$5,018, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the year ended June 30, 2009 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, 2009.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligations 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 PERS 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 PERS. The balance in deferred pension costs as of June 30, 2009 and 2008 was \$13,260 and \$13,439, 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, 2009.

OTHER POSTEMPLOYMENT BENEFITS

The City contributes to two single-employer defined benefit healthcare plans: Stipend Plan (SP) and the Implied Subsidy Plan (ISP). The plans provide other postemployment health care benefits (OPEB) for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Electric Utility currently contributes to two bargaining units through the International Brotherhood of Electrical Workers General Trust (IBEW) and Service Employee's International Union General Trust (SEIU). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

The Electric Utility also provides benefits to retirees in the form of an implicit rate subsidy (Implied Subsidy). Under an implied rate subsidy, retirees and current employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees are receiving the benefit of a lower rate.

The contribution requirements of the Electric Utility for the Stipend Plan are established and may be amended through the memoranda of understanding (MOU) between the City and the unions. The Electric Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Electric Utility's Implied Subsidy Plan are established by the City Council. The Electric Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Electric Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Electric Utility's OPEB liability as of June 30, 2009 and 2008, was \$1,229 and \$605, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2009 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 – 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 ended June 30, 2009 and 2008 the Electric Utility transferred approximately 10.5 percent of gross operating revenues less wholesale sales and Public Benefit Program revenues, or \$29,583 and \$27,371, respectively.

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.

BUDGETS AND BUDGETARY ACCOUNTING

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

RECLASSIFICATION

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.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 2. CASH AND INVESTMENTS

Cash and investments at June 30, 2009 and 2008, consist of the following (in thousands):

	June 30, 2009	June 30, 2008
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 163,688	\$ 105,989
Investments at fiscal agent	222,538	273,488
Total cash and investments	\$ 386,226	\$ 379,477

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

	June 30, 2009	June 30, 2008
Unrestricted cash and cash equivalents	\$ 134,883	\$ 78,687
Restricted cash and cash equivalents	28,805	27,302
Restricted cash and investments at fiscal agent	222,538	273,488
Total cash and investments	\$ 386,226	\$ 379,477

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	\$ 381	\$ 381	\$ -	\$ -	\$ -
Federal agency securities	38,548	1,062	5,675	16,229	15,582
Investment contracts ¹	161,365	-	130,295	7,541	23,529
Corp medium term notes	22,244	-	-	4,216	18,028
City Treasurer's investment pool ²					
Money market funds	18,779	18,779	-	-	-
Federal agency securities	90,152	18,621	13,955	57,576	-
Corp medium term notes	14,161	-	4,762	9,399	-
State investment pool	40,596	40,596	-	-	-
Total	\$ 386,226	\$ 79,439	\$ 154,687	\$ 94,961	\$ 57,139

Presented below is the actual ratings 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	\$ 381	\$ 320	\$ -	\$ 61
Federal agency securities	38,548	38,548	-	-
Investment contracts	161,365	-	-	161,365
Corp medium term notes	22,244	-	22,244	-
City Treasurer's investment pool ²				
Money market funds	18,779	-	-	18,779
Federal agency securities	90,152	90,152	-	-
Corp medium term notes	14,161	14,161	-	-
State investment pool	40,596	-	-	40,596
Total	\$ 386,226	\$ 143,181	\$ 22,244	\$ 220,801

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."

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 3. UTILITY PLANT

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	Balance, As of 6/30/2007	Additions	Retirements/ Transfers	Balance, As of 6/30/2008	Additions	Retirements/ Transfers	Balance, As of 6/30/2009
Production	\$ 257,980	\$ 4,583	\$ -	\$ 262,563	\$ 3,907	\$ -	\$ 266,470
Transmission	26,522	450	-	26,972	572	-	27,544
Distribution	341,836	53,314	(1,231)	393,919	34,819	(2,223)	426,515
General	28,154	1,190	(721)	28,623	11,305	(1,176)	38,752
Depreciable utility plant	654,492	59,537	(1,952)	712,077	50,603	(3,399)	759,281
Less accumulated depreciation:							
Production	(117,578)	(9,785)	-	(127,363)	(10,056)	-	(137,419)
Transmission	(10,316)	(610)	-	(10,926)	(615)	-	(11,541)
Distribution	(124,152)	(10,378)	513	(134,017)	(10,816)	1,876	(142,957)
General	(14,091)	(1,420)	694	(14,817)	(1,604)	1,139	(15,282)
Accumulated depreciation	(266,137)	(22,193)	1,207	(287,123)	(23,091)	3,015	(307,199)
Net depreciable utility plant	388,355	37,344	(745)	424,954	27,512	(384)	452,082
Land	7,049	100	-	7,149	463	-	7,612
Construction in progress	54,663	74,720	(59,637)	69,746	83,555	(51,067)	102,234
Nuclear fuel	2,645	2,046	(1,096)	3,595	1,504	(1,133)	3,966
Nondepreciable utility plant	64,357	76,866	(60,733)	80,490	85,522	(52,200)	113,812
Total utility plant	\$ 452,712	\$ 114,210	\$ (61,478)	\$ 505,444	\$ 113,034	\$ (52,584)	\$ 565,894

NOTE 4. LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2009 and 2008 (in thousands):

	Balance, As of 6/30/2007	Additions	Reductions	Balance, As of 6/30/2008	Additions	Reductions	Balance, As of 6/30/2009	Due Within One Year
Revenue bonds	\$ 354,211	\$ 407,969	\$ (213,805)	\$ 548,375	\$ -	\$ (20,867)	\$ 527,508	\$ 21,300
Pension obligation	13,390	-	(184)	13,206	-	(227)	12,979	274
Postemployment benefits payable	-	605	-	605	624	-	1,229	-
Nuclear decommissioning liability	50,606	3,917	-	54,523	4,549	-	59,072	-
Capital leases	-	-	-	-	2,728	(295)	2,433	360
Total long-term obligations	\$ 418,207	\$ 412,491	\$ (213,989)	\$ 616,709	\$ 7,901	\$ (21,389)	\$ 603,221	\$ 21,934

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

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

Revenue Bonds Payable

	June 30, 2009	June 30, 2008
\$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 5.38 percent; \$21,595 term bonds due October 1, 2018, interest at 5.0 percent; \$13,970 term bonds due October 1, 2022; (partially advance refunded in 2005)	\$ 35,125	\$ 41,410
\$47,215 2001 Electric Revenue Bonds: \$47,215 serial bonds due in annual installments from \$3,370 to \$4,280 through October 1, 2014, interest from 3.8 percent to 5.25 percent; (partially advance refunded in 2005)	22,740	25,990
\$75,405 2003 Electric Refunding/Revenue Bonds: \$75,405 serial bonds due in annual installments from \$6,880 to \$8,535 through October 1, 2013, interest from 4.0 percent to 5.0 percent	39,305	46,710
\$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 5.0 percent to 5.5 percent	19,305	22,160
\$199,115 2008 Electric Refunding/Revenue Bonds:		
A - \$84,515 2008 Series A Bonds - Variable rate bonds due in annual installments from \$1,250 to \$7,835 from October 1, 2014 through October 1, 2029. Interest rate is subject to weekly repricing (rate at June 24, 2009 was 3.5 percent)	84,515	84,515
B - \$57,275 2008 Series B Bonds - Variable rate bonds due in annual installments from \$275 to \$5,175 from October 1, 2008 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 24, 2009 was 3.6 percent)	57,000	57,275
C - \$57,325 2008 Series C Bonds - Variable rate bonds due in annual installments from \$300 to \$5,200 from October 1, 2009 through October 1, 2035. Interest rate is subject to weekly repricing (rate at June 24, 2009 was 3.6 percent)	57,050	57,325
\$209,740 2008 Electric Revenue Series D Bonds: \$66,740 serial bonds due in annual installments from \$125 to \$7,735 from October 1, 2017 through October 1, 2038, interest from 3.63 percent to 5.0 percent; \$48,015 term bonds due October 1, 2033, interest at 5.0 percent; \$94,985 term bonds due October 1, 2038, interest at 5.0 percent	209,740	209,740
Total electric revenue bonds payable	524,780	545,125
Unamortized deferred bond refunding costs	(7,032)	(7,681)
Unamortized bond premium	9,760	10,931
Total electric revenue bonds payable, net of deferred bond refunding costs and bond premium	527,508	548,375
Less current portion	(21,300)	(20,345)
Total long-term electric revenue bonds payable	\$ 506,208	\$ 528,030

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

Annual debt service requirements to maturity, excluding amounts for nuclear decommissioning liability, as of June 30, 2009, are as follows (in thousands):

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	Total
Principal	\$ 21,300	\$ 22,295	\$ 21,050	\$ 22,040	\$ 21,080	\$ 66,230	\$ 63,970	\$ 77,070	\$ 94,000	\$ 115,745	\$ 524,780
Interest	21,735	20,709	19,693	18,692	17,640	78,514	67,585	54,104	36,768	14,449	349,889
Total	\$ 43,035	\$ 43,004	\$ 40,743	\$ 40,732	\$ 38,720	\$ 144,744	\$ 131,555	\$ 131,174	\$ 130,768	\$ 130,194	\$ 874,669

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 2.60 and 2.62 at June 30, 2009 and 2008, respectively. This debt is backed by the revenues of the Utility (revenue bonds).

PRIOR YEAR DEFEASANCE OF DEBT

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, 2009, \$9,260 of bonds outstanding are considered defeased.

2008 ELECTRIC REFUNDING/REVENUE BONDS

The City entered into a refunding transaction during the prior fiscal year in response to unusual market conditions brought about by the downgrade of several of the leading municipal bond insurers. These companies provided insurance for the City's Auction Rate Securities ("ARS"). The market that routinely absorbed these instruments through a weekly auction process discontinued their interest in the product and the result was excessively high interest rates, often to the default rate (defined in the bond documents) as the auction "failed," having insufficient bids to clear the auction.

The City's ARS debt was layered with "synthetic fixed rate" swaps designed to maintain the overall cost of funds at a level considered to be in the City's best interest. The unusual market conditions resulted in the swaps not performing as intended and thus the ARS debt was refunded with Variable Rate Demand Notes ("VRDNs"). The notional values of the original swaps remained in place. The transactions were completed (as described below), and the variable rates received on the VRDNs as of June 30, 2009 have resulted in the swaps again functioning as intended, to control the cost of funds on the outstanding variable rate debt.

Because one variable rate debt product was exchanged for another, the typical refunding disclosure measuring the difference in aggregate debt service and calculating an economic gain or loss is less relevant, as the future cash flows of each leg of the calculation are uncertain. For this reason, only the terms of the transaction are described.

On April 25, 2008, \$84,515 of Electric Refunding/Revenue Series A Bonds were sold with a true interest cost of 3.14% to refund \$82,500 of previously outstanding 2004 Electric Revenue Bonds. Also on April 25, 2008, \$114,600 of Electric Refunding/Revenue Series B and C Bonds were sold with a true interest cost of 3.22% to refund \$114,600 of previously outstanding 2005 Electric Refunding/Revenue Series A and B Bonds. The refunding resulted in a combined difference between the reacquisition prices and the net carrying amounts of the old debt of \$5,435. The difference is being charged to operations using the proportional method. The City completed the refunding to eliminate its investment in ARS and reduce its exposure in ARS markets.

On May 8, 2008, the Electric Utility also issued \$209,740 of Electric Revenue Series D Bonds to finance additional capital projects of the City's Capital Improvement Program of the Electric System. Series D is comprised of: \$66,740 serial bonds, with principal payments from October 1, 2017 through October 1, 2038 ranging from \$125 to \$7,735 at interest rates between 3.63 percent and 5.0 percent; \$48,015 term bonds, maturing on October 1, 2033 with interest rate at 5.0 percent; \$94,985 term bonds, maturing on October 1, 2038 with interest rate at 5.0 percent.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

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 of the ARS in 2004 and 2005, the City entered into interest rate swap agreements in connection with its \$82,500 2004 Revenue Series B Bonds and \$115,725 2005 Refunding/Revenue Series A and B Bonds. 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 Series A and 3.20% for Series B and C.

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 2009, respectively, the notional value of the 2008 Series A, B and C swaps and the principal amount of the associated debt decline by \$1,250 to \$7,000 (Series A), \$275 to \$5,175 (Series B) and \$275 to \$5,200 (Series C), respectively, until the debt is completely retired in fiscal years 2030 (Series A) and 2036 (Series B and C), respectively.

The bonds and the related swap agreements for the 2008 Electric Refunding/Revenue Series A Bonds mature on October 1, 2029 and Series B and C Bonds mature on October 1, 2035. As of June 30, 2009, rates were as follows:

Interest rate swap:	Terms	2008 Electric Refunding/ Revenue Series A Bonds	2008 Electric Refunding/ Revenue Series B Bonds	2008 Electric Refunding/ Revenue Series C Bonds
		Rates	Rates	Rates
Fixed payment to counterparty	Fixed	3.11100%	3.20100%	3.20400%
Variable payment from counterparty	62.68 LIBOR + 12bps	(2.50897%)	(2.49327%)	(2.48821%)
Net interest rate swap payments		0.60203%	0.70773%	0.71579%
Variable-rate bond coupon payments		2.76583%	2.79314%	2.79678%
Synthetic interest on bonds		3.36786%	3.50087%	3.51257%

Fair value: As of June 30, 2009, in connection with all swap agreements, the transactions had a total negative fair value of (\$12,865). 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, 2009, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparties, J.P. Morgan Chase Bank and Merrill Lynch Capital Services, were rated A+ and A, respectively by Standard & Poor’s. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparties’ rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2009, there is no requirement for collateral posting for any of the outstanding swaps.

Basis risk: As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the variable 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.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 4. LONG-TERM OBLIGATIONS *(continued)*

Swap payments and associated debt: As of June 30, 2009, 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
2010	\$ 575	\$ 5,509	\$ 1,316	\$ 7,400
2011	575	5,493	1,312	7,380
2012	2,650	5,419	1,294	9,363
2013	2,750	5,342	1,274	9,366
2014	2,850	5,262	1,254	9,366
2015-2019	41,100	22,797	5,423	69,320
2020-2024	42,075	17,035	4,078	63,188
2025-2029	39,630	11,569	2,836	54,035
2030-2034	45,985	5,456	1,389	52,830
2035-2036	20,375	290	74	20,739
Total	\$ 198,565	\$ 84,172	\$ 20,250	\$ 302,987

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 2008 Refunding/Revenue Series A, B and C Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series D Bonds and 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 2008-09 and 2007-08 fiscal years, the Electric Utility paid approximately \$17,792 and \$17,074, 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.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 7. JOINTLY-OWNED UTILITY PROJECT

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

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

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 in 2004 dollars, 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 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.

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 \$146,027 and \$142,120 for fiscal years ended June 30, 2009 and 2008, 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 \$120,549 and \$114,511 for the fiscal years ended June 30, 2009 and 2008, 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 \$2,968 and \$2,336 for fiscal years June 30, 2009 and June 30, 2008, 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 whether or not such generation output of transmission service is available.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 8. COMMITMENTS *(continued)*

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

Project	Percent Share	Entitlement	Final Maturity	Contract Expiration
Palo Verde Nuclear Generating Station	5.4 percent	11.7 MW	2017	2030
Southern Transmission System	10.2 percent	195.0 MW	2027	2027
Hoover Dam Upgrading	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.

Interest rates on the outstanding debt associated with the take-or-pay obligations range from 3.50 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.

Debt Service Payment (in thousands) Year Ending June 30,	IPA		SCPPA				TOTAL
	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead- Phoenix Transmission	Mead- Adelanto Transmission	All Projects
	2010	\$ 19,926	\$ 692	\$ 6,457	\$ 708	\$ 229	\$ 2,454
2011	25,742	662	7,538	708	319	3,100	38,069
2012	23,323	666	7,936	706	318	3,090	36,039
2013	20,116	669	9,614	704	318	3,087	34,508
2014	22,918	672	8,764	705	318	3,092	36,469
2015-2019	101,907	2,725	43,378	2,803	1,311	14,833	166,957
2020-2024	63,356	-	37,809	-	515	5,820	107,500
2025-2029	-	-	21,044	-	-	-	21,044
Total	\$ 277,288	\$ 6,086	\$ 142,540	\$ 6,334	\$ 3,328	\$ 35,476	\$ 471,052

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, 2009 and 2008, are as follows (in thousands):

FISCAL YEAR	Intermountain Power Project	Palo Verde Nuclear Generating Station	Southern Transmission System	Hoover Dam Upgrading	Mead-Phoenix Transmission	Mead-Adelanto Transmission	TOTAL
2009	\$ 28,010	\$ 3,044	\$ 1,975	\$ 81	\$ 121	\$ 243	\$ 33,474
2008	\$ 27,759	\$ 2,758	\$ 2,181	\$ 88	\$ 97	\$ 248	\$ 33,131

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

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

NOTE 8. COMMITMENTS *(continued)*

POWER PURCHASE AGREEMENTS

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

MINIMUM OBLIGATIONS 2009-2010 *(in thousands):*

Supplier	Capacity	Energy	Total
Deseret	\$ 1,732	\$ 1,143	\$ 2,875
BPA (two agreements)	1,096	-	1,096
Total	\$ 2,828	\$ 1,143	\$ 3,971

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, 2009 and 2008, Deferred purchased power was \$1,670 and \$5,011, respectively, and the Utility had recorded amortization of \$3,341 in both fiscal years.

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 purchase the maximum private primary nuclear liability insurance available (\$300 Million) and participate in the industry's secondary financial protection plan. The secondary financial protection program is the industry's retrospective assessment plan that uses deferred premium charges from every licensed reactor owner if claims and/or costs resulting from a nuclear incident at any licensed reactor in the United States were to exceed the primary nuclear insurance at that plant's site. The Act limits liability from third-party claims to approximately \$12.5 billion per incident. Under the industry wide retrospective assessment program provided for under the Act, assessments are limited to \$117.5 million per reactor for each nuclear incident occurring at any nuclear reactor in the United States, with payments under the program limited to \$17.5 million per reactor, per year, per event to be indexed for inflation every five years. The next inflation adjustment will occur no later than October 2013. Based on the Electric Utility's interest in Palo Verde and ownership in SONGS, the Utility would be responsible for a maximum assessment of \$5,331, limited to payments of \$794 per incident, per year. If the public liability limit above is insufficient, federal regulations may impose further revenue-raising measures to pay claims, including a possible additional assessment on all licensed reactor operators.

NOTES TO THE FINANCIAL STATEMENTS: ELECTRIC

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 City Council, on December 9, 2008, unanimously approved the revised RPS.

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 11% 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 2010
Salton Sea Power LLC	Geothermal	46.0 MW	5/31/2020	22,123
Wintec	Wind	8.0 MW	11/10/2021	233
Total		54.0 MW		\$ 22,356

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 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 additional capacity available upon completion of Wintec’s Facility II Wind Turbine Project.

On June 19, 2008, and December 12, 2008, respectively the City of Riverside entered into two separate Renewable Power Purchase Agreements with Shoshone Renaissance, LLC (“Renaissance”). The contract term for each agreement is 30 years, and provide a combined 96 megawatts of geothermal energy. Like the majority of renewable projects, Renaissance has had difficulty completing the financing due to the meltdown in the financial markets. The agreements have been extended to allow Renaissance additional time to secure financing to begin drilling and ultimately constructing the projects. Renaissance is confident about ultimately securing the necessary financing, and expects that the power delivery should commence in late 2011 with project completion approximately one year later. Similar to its other renewable power purchase agreements, Riverside’s payment obligation is limited to the amount of energy delivered. Including the renewable power from these contracts, Riverside expects to serve 50% of its retail customer needs with renewable power in 2013.

CONSTRUCTION COMMITMENTS

As of June 30, 2009, the Electric Utility had major commitments of approximately \$17,207 with respect to unfinished capital projects, of which \$16,560 is expected to be funded by bonds and \$647 funded by rates .

FORWARD PURCHASE AGREEMENTS

In order to meet summer peaking requirements, the Utility may contract on a monthly or quarterly basis, for natural gas, electricity and/or capacity products on a short term horizon. As of June 30, 2009, the Electric Utility has summer peaking commitments for fiscal year 2010, of approximately \$4,727, with a market value of \$3,076.

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 (CAISO) Market Redesign and Technology Upgrade (MRTU).

On January 1, 2003, the City became a Participating Transmission Owner (PTO) with the CAISO, entitling the City to receive compensation for use of its transmission facilities committed to the CAISO's operational control. The compensation is based on the City's Transmission Reserve Requirements (TRR) as approved by the FERC. 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 CAISO 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.

On May 6, 2009, Riverside filed a revised TRR at FERC. In its filing, Riverside updated its projected transmission costs and proposed an automatic adjustment mechanism to reflect its actual costs incurred under existing transmission contracts with Southern California Edison which have become the most volatile component of its TRR. Numerous parties filed timely motions to intervene, with some parties protesting various portions of the TRR. On August 28, 2009, FERC accepted Riverside's TRR filing and ordered Riverside's TRR to be incorporated in CAISO rates effective July 1, 2009, subject to hearing and settlement judge procedures to determine the appropriate rates. Although the ultimate outcome cannot be predicted, Riverside is currently receiving the full TRR amount requested, and will be required to refund, with interest, amounts collected in excess of the settlement process.

During the California Energy Crisis of 2001-2002, the City made numerous power sales into the California centralized markets. Due to financial problems experienced by numerous market participants, notably Pacific Gas & Electric (PG&E) and the California Power Exchange (Cal PX) who filed for Chapter 11 bankruptcy in 2001, the City was not paid for many of these transactions. On June 4, 2008, the FERC approved a settlement agreement between the City and numerous California entities, including all of the Investor-Owned Utilities and the California Attorney General, under which the City was paid all of its unpaid receivables, plus interest, minus \$1.27 million in refunds. The net payout to the City was \$3.7 million (including all unpaid receivables, including interest and its deposit with the Cal PX, minus \$269,000 paid to the City of Banning for transactions made on its behalf by the City). Under the settlement, the City may receive additional distributions of refunds from other sellers. The City also may be responsible for paying its allocated portion (as determined by FERC) of payments due to other sellers for any Emissions Offset, Fuel Cost Allowance, or Cost Offset associated with sales by such other sellers during the energy crisis. It is not possible at this time to estimate the net effect of any such future distributions to or payments by 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: ELECTRIC

POWER SUPPLY (MWH)

	2008/09	2007/08	2006/07	2005/06	2004/05
Nuclear					
San Onofre	281,400	286,500	310,400	275,100	282,700
Palo Verde	97,700	85,200	90,000	72,600	87,500
Coal					
Intermountain Power	1,051,200	1,094,100	1,130,000	1,091,000	1,081,600
Deseret	406,000	427,600	400,000	396,000	432,200
Hoover (Hydro)	32,500	33,700	34,500	35,100	28,100
Gas					
Springs	3,300	2,300	1,600	1,600	1,700
RERC	48,700	46,800	62,000	9,300	0
Renewable Resources	233,000	247,800	245,000	264,000	270,200
Other purchases	479,900	594,100	462,000	517,300	440,000
Exchanges In	90,000	115,700	107,400	89,900	83,300
Exchanges Out	(160,600)	(202,600)	(191,900)	(174,600)	(79,100)
Total:	2,563,100	2,731,200	2,651,000	2,577,300	2,628,200
System peak (MW)	534.1	604.4	586.3	550.6	519.1

ELECTRIC USE

Number of meters as of year end	2008/09	2007/08	2006/07	2005/06	2004/05
Residential	95,214	94,691	94,232	93,607	92,914
Commercial	10,178	10,258	10,063	10,038	10,060
Industrial	904	978	837	496	344
Other	89	88	94	153	145
Total:	106,385	106,015	105,226	104,294	103,463
Millions of kilowatt-hours sales					
Residential	733	734	748	697	675
Commercial	433	441	456	474	530
Industrial	946	960	924	810	707
Other	33	34	39	57	50
Subtotal:	2,145	2,169	2,167	2,038	1,962
Wholesale	309	357	295	321	470
Total:	2,454	2,526	2,462	2,359	2,432

ELECTRIC FACTS

	2008/09	2007/08	2006/07	2005/06	2004/05
Average annual kWh per residential customer	7,739	7,779	7,959	7,515	7,424
Average price (cents/kWh) per residential customer	14.39	13.61	12.62	12.22	11.81
Debt service coverage ratio	2.60	2.62	3.09	2.67	3.68
Operating income as a percent of operating revenues	21.9%	16.4%	22.0%	18.2%	25.4%
Employees ¹	416	405	367	338	307

¹ Approved Positions

KEY HISTORICAL OPERATING DATA: ELECTRIC

2008/2009 ELECTRIC REVENUE AND RESOURCES



- Other Sales 2¢
- Wholesale Sales 3¢
- Investment Income 5¢
- Transmission Revenue 5¢
- Other Revenue 6¢
- Commercial Sales 19¢
- Industrial Sales 29¢
- Residential Sales 31¢



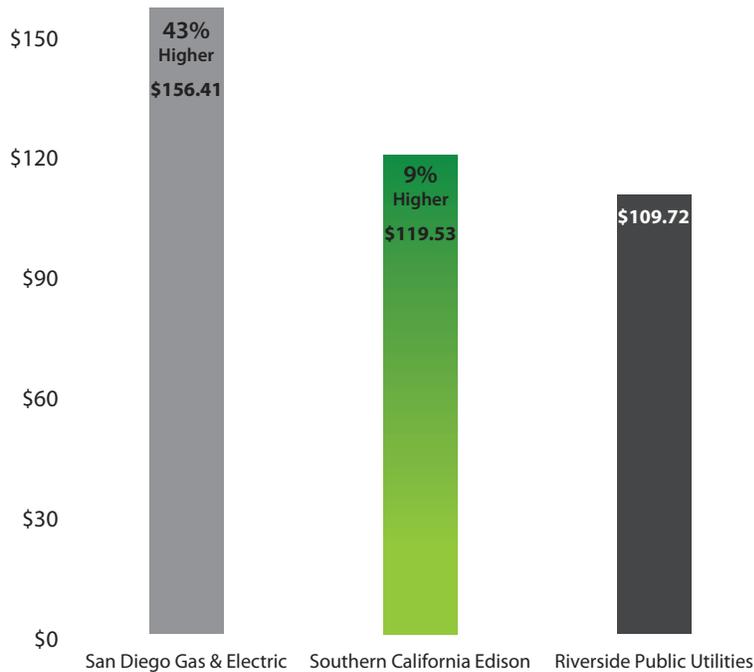
- Additions & Replacements to the System 3¢
- Transfers to the City's General Fund* 9¢
- Additional Reserves 10¢
- Transmission 10¢
- Debt Service 13¢
- Distribution 14¢
- Production 41¢



- Hydropower 1%
- Gas 2%
- Renewables 9%
- Nuclear 14%
- Other Purchases 17%
- Coal 57%

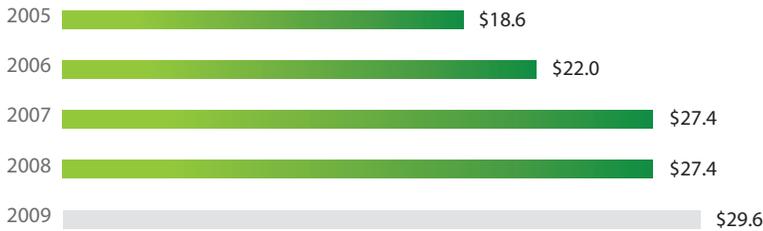
* BASED ON TRANSFER OF 10.5% OF FISCAL YEAR 2007/2008 REVENUES (EXCLUDES WHOLESale SALES, INTEREST AND OTHER NON-OPERATING INCOME).

SINGLE FAMILY RESIDENTIAL ELECTRIC RATE COMPARISON – 750 KWH PER MONTH (AS OF JUNE 30, 2009)



KEY HISTORICAL OPERATING DATA: ELECTRIC

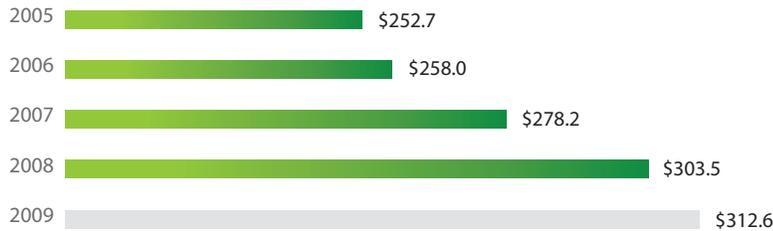
GENERAL FUND TRANSFER *(in millions)*



NUMBER OF METERS AT YEAR END



TOTAL OPERATING REVENUE *(in millions)*

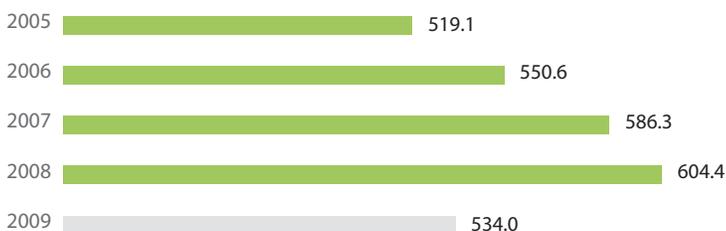


PRODUCTION *(in million kilowatt-hours)**



* ENERGY SHOWN BEFORE LOSSES NET OF EXCHANGES

PEAK DAY DEMAND *(in megawatts)*



ELECTRIC FACTS AND SYSTEM DATA

Established	1895
Service Area Population	300,430
Service Area Size (square miles)	81.5
System Data:	
Transmission lines (circuit miles)	91.1
Distribution lines (circuit miles)	1,291
Number of substations	14
2008-2009 Peak day (megawatts):	534
Highest single hourly use:	
8/26/2008, 4pm, 97 degrees	
Historical peak (megawatts):	604
8/31/07, 4pm, 106 degrees	

BOND RATINGS

FITCH RATINGS	AA-
STANDARD & POOR'S	AA-
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 Prior Resolution and continued 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 2009 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 2009 Bonds or the Federal Reserve Bank shall have possession of such obligations; (iii) the Fiscal Agent for the 2009 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 2009 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;

(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; and

(f) unsecured certificates of deposit, time deposits and bankers’ acceptance (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated on the date of purchase “A-1+” or better by S&P and “P-1” by Moody’s Investors Service and or certificates of deposit (including those of the Fiscal Agent, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings bank whose short-term obligations are rated on the date of purchase A-1 or better by S&P, Moody’s Investors Service and Fitch.

“**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;

(h) provided that this paragraph shall not apply while any of the 1998 Bonds, 2001 Bonds, 2003 Bonds, 2004A Bonds, 2008A Bonds, 2008B Bonds, 2008C Bonds or 2008D Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps): if interest

on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

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.

“**1998 Bonds**” means the City’s Electric Refunding/Revenue Bonds, Issue of 1998.

“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.

“2001 Bonds” mean the City’s Electric Revenue Bonds, Issue of 2001.

“2003 Bonds” means the City’s Electric Refunding Revenue Bonds, Issue of 2003.

“2004A Bonds” means the City’s Electric Revenue Bonds, Issue of 2004A.

“2008A Bonds” means the City’s Variable Rate Refunding Electric Revenue Bonds, Issue of 2008A.

“2008B Bonds” means the City’s Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B.

“2008C Bonds” means the City’s Variable Rate Refunding Electric Revenue Bonds, Issue of 2008C.

“2008D Bonds” means the City’s Electric Revenue Bonds, Issue of 2008D.

“2009A Bonds” means the City’s Electric Revenue Refunding Bonds, Issue of 2009A.

“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) 1.10% 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) *only after* 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 part 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 *par 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.

Provided that the following shall not take apply while any of the 1998 Bonds, 2001 Bonds, 2003 Bonds, 2004A Bonds, 2008A Bonds, 2008B Bonds, 2008C Bonds or 2008D Bonds are outstanding or the Subordinate Swaps and Subordinate Swap Policy are in effect without the consent of the Subordinate Swap Providers (to the extent required by the Subordinate Swaps) or the Subordinate Swap Policy Providers (to the extent required by the Subordinate Swaps), for purposes of calculating the interest due under (b) above, if interest on such Bonds or Parity Debt is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Internal Revenue Code of 1986, as amended (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009), or any future similar program, then interest payments with respect to such Bonds or Parity Debt shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

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.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$34,920,000
CITY OF RIVERSIDE, CALIFORNIA
Electric Revenue Refunding Bonds
Issue of 2009A

This CONTINUING DISCLOSURE CERTIFICATE (this “**Disclosure Certificate**”) is executed and delivered by the CITY OF RIVERSIDE (the “**City**”) in connection with the execution and delivery of the bonds captioned above (the “**Bonds**”) relating to the City’s electric public utility system (the “**Electric System**”). The Bonds are being executed and delivered pursuant to Resolution No. 17662, adopted by the City Council of the City on January 8, 1991, as previously amended and supplemented, and as amended and supplemented by a fourteenth supplemental resolution adopted by the City Council on November 17, 2009, providing for issuance of the Bonds (as amended and supplemented, the “**Resolution**”).

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is 270 days after the end of the City’s fiscal year (currently April 1 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means E. J. De La Rosa & Co., Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing April 1, 2010, with the report for the 2008-09 fiscal year (although the Annual Report for fiscal year 2008-09 may consist of the Official Statement), provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) 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 the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Electric System may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) The Electric System’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Electric System’s audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained

in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Electric System for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) Principal amount of the Bonds outstanding as of the end of the immediately preceding fiscal year.

(ii) Updated information comparable to the information in the table entitled "Electric System Facilities" as it appears in the Official Statement.

(iii) Updated information comparable to the information in the table entitled "Annual Electricity Supply" as it appears in the Official Statement.

(iv) 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.

(v) Updated information comparable to the information in the table entitled "Number of Meters" as it appears in the Official Statement.

(vi) Updated information comparable to the information in the table entitled "Energy Sold" as it appears in the Official Statement.

(vii) Updated information comparable to the information in the table entitled "Percentage Increase in Electric Rates" as it appears in the Official Statement.

(viii) Updated information comparable to the information in the table entitled "Revenues From Sales of Electricity" as it appears in the Official Statement.

(ix) Updated information comparable to the information in the table entitled "Average Billing Price" as it appears in the Official Statement.

(x) 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.

(xi) Updated information comparable to the information in the table entitled "Outstanding Debt of Joint Powers Agencies" as it appears in the Official Statement.

(xii) Description of any Additional Bonds and any Parity Debt incurred by the City with respect to the Electric System during the immediately preceding fiscal year.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) 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, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) 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) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(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 law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, promptly file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Resolution.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

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 the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

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 Annual Report or 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 Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder 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.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent 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 they 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 have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) 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 shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: December 22, 2009

CITY OF RIVERSIDE

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Riverside

Name of Issue: City of Riverside Electric Revenue Refunding Bonds, Issue of 2009A

Date of Issuance: December 22, 2009

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated December 22, 2009. The City anticipates that the Annual Report will be filed by

_____.

Dated: _____

DISSEMINATION AGENT:

By: _____

Its: _____

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

Upon the issuance of the 2009A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Date of Delivery]

City of Riverside
Riverside, California

Re: \$34,920,000 City of Riverside Electric Revenue Refunding Bonds Issue of 2009A

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Riverside, California (the "City") of the \$34,920,000 aggregate principal amount of the City's Electric Revenue Refunding Bonds Issue of 2009A (the "Bonds"). The Bonds are being issued pursuant to the Charter of the City (the "Charter"), Ordinance No. 5001 adopted by the City Council on April 20, 1982, as amended (the "Ordinance"), and Resolution No. 17662 adopted by the City Council on January 8, 1991, as supplemented, including as supplemented by Resolution No. 21934 adopted by the City Council on November 17, 2009 (collectively, the "Resolution").

In rendering the opinions set forth below, we have examined the Constitution and statutes of the State of California, the Charter, the Ordinance and the Resolution, certified copies of the proceedings of the City, and other information submitted to us relative to the issuance and sale by the City of the Bonds. We have examined originals, or copies identified to our satisfaction as being true copies, of the Charter, the Ordinance, the Resolution and the Tax Certificate relating to the Bonds, opinions of counsel to the City, certificates of the City and others, and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraphs of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolution and each Tax Certificate may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

We express no opinion herein with respect to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained in the Bonds or the Resolution.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal income tax law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

Based on and subject to the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds constitute the valid and binding special revenue obligations of the City.
2. The Resolution was duly adopted at meetings of the City Council of the City.
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 Resolution. The general fund of the City is not liable for the payment of the Bonds, any premium thereon upon redemption prior to maturity or their interest, nor is the credit or taxing power of the City pledged for the payment of the Bonds, any premium thereon upon redemption prior to maturity 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 Resolution which are payable from Net Operating Revenues on a parity basis with the Bonds.
5. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. With respect to corporations, Bondholders should consult their tax advisors regarding whether interest on the Bonds will be included as an adjustment in the calculation of alternative minimum taxable income. The foregoing opinion is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements.
6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner

before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 5 above) and is exempt from State of California personal income tax.

7. The amount by which a Bondholder's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bondholder's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondholder realizing a taxable gain when a Bond is sold by the holder for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the holder.

8. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

Except as set forth in paragraphs 5 through 8 above, we express no opinion as to any tax consequences related to the Bonds. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Bondholders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Resolution and the Tax Certificate 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. We express no opinion herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur, and we disclaim any obligation to update this opinion. Our engagement as Bond Counsel terminates upon the issuance of the Bonds.

The scope of our engagement in relation to the issuance of the Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged or undertaken to review, confirm or verify, and therefore express no opinion herein as to, the accuracy, completeness, fairness or sufficiency of any of the statements in the Official Statement or any exhibits or appendices thereto or any other offering material relating to the Bonds.

City of Riverside
[Date of Delivery]
Page 4

In addition, we have not been engaged to and therefore express no opinion as to the compliance by the City or the underwriter with any federal or state statute, regulation or ruling with respect to the sale or distribution of the Bonds.

Respectfully submitted,

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Bonds (the “**Issuer**”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “**Agent**”) take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “**Bonds**”). The 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 certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument 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 Bonds. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

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

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“**Beneficial Owner**”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or 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.

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

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

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

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